Commonwealth of Massachusetts

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

Martin J. Benison, CGFM
Comptroller of the Commonwealth

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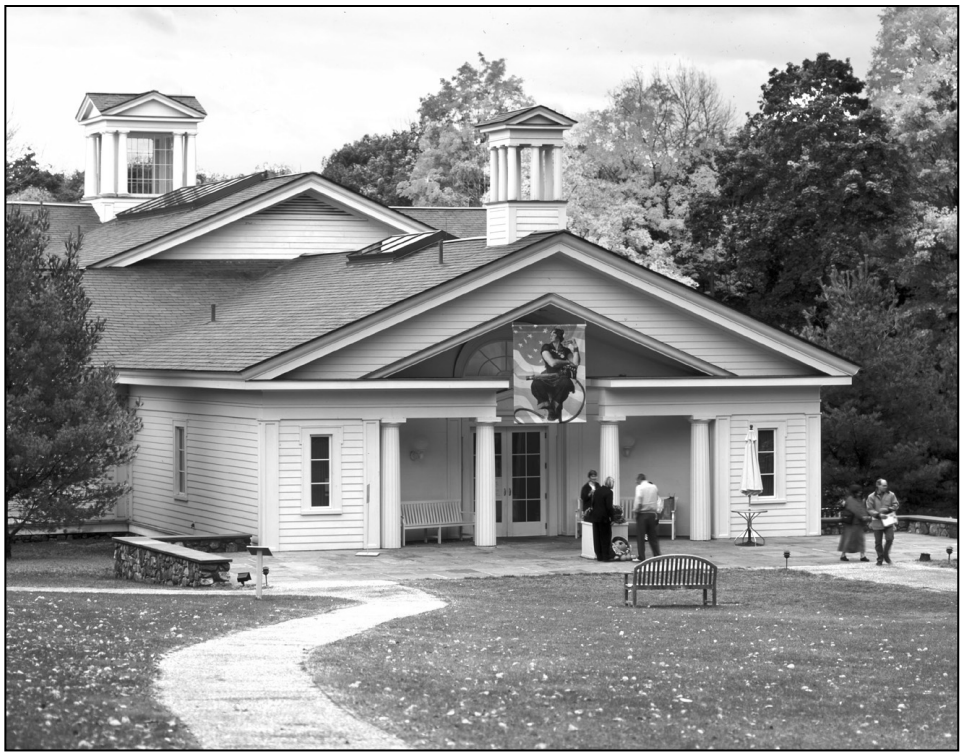

Norman Rockwell Museum

Photograph by Art Evans

The Norman Rockwell Museum is one of the few museums in the country to have grown, literally, out of popular demand and celebrates its thirty-fifth anniversary in 2004. Located on Stockbridge's historic Main Street for its first 24 years, the Museum moved in 1993 to its present home, which was designed by the renowned architect Robert A. M. Stern and is situated on 36 picturesque acres overlooking the Housatonic River Valley. Since moving to its new location and greatly expanding its educational programming, exhibition schedule, and special events, the Museum has become the most popular year-round destination in the culturally rich Berkshires of western Massachusetts.

Illustrations and text courtesy of the Norman Rockwell Museum, Stockbridge, MA
Laurie Norton Moffatt, Director
Linda Szekely Pero, curator of Norman Rockwell Collections
Special thanks to Ellen Swan Mazzer, Communications Coordinator

Cover Illustration: *Outward Bound*
Ladies Home Journal, October 1927
Licensed by Norman Rockwell Licensing, Niles, IL

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

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Introductory Section

Letter of Transmittal
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Commonwealth Organizational Structure
Principal Commonwealth Officers
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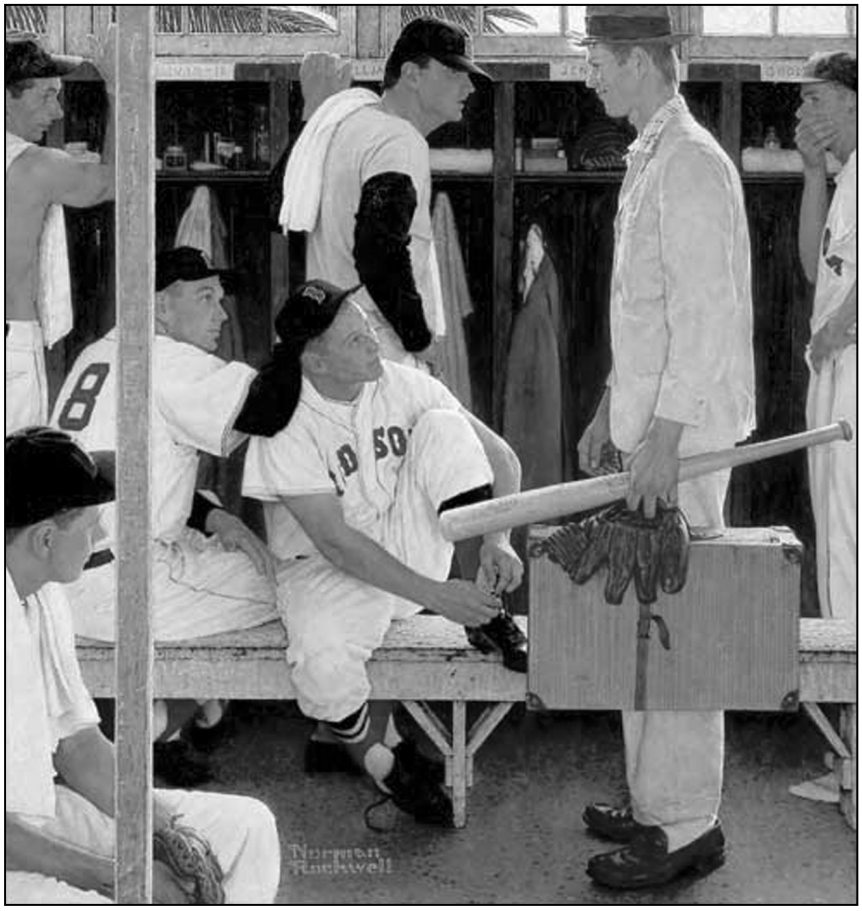
Certificate of Achievement



Red Sox Locker Room

Red Sox Locker Room, Illustration for the *Saturday Evening Post,* March 2, 1957 *©1957 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.*

This was the March 2nd cover in 1957. That spring there was an article in the *Boston Herald* announcing that the Red Sox had come back home from training camp. It then went on to say this: "For a team of what training camp experts dubbed as 'mediocre standpats,' the 1957 Red Sox show signs of defying the league. Williams [Ted Williams] has shown unexpected spring greatness. He has shaken off the seemingly inevitable injury."

Studio Interior

©Brownie Harris, Courtesy of GE

Rockwell found success early. He painted his first commission of four Christmas cards before his sixteenth birthday. While still in his teens, he was hired as art director of *Boys' Life*, the official publication of the Boy Scouts of America, and began a successful freelance career illustrating a variety of young people's publications.

At age 21, Rockwell's family moved to New Rochelle, New York, where he set up a studio with the cartoonist Clyde Forsythe and produced work for such magazines as *Life*, *Literary Digest*, and *Country Gentleman*. In 1916, the 22-year-old Rockwell painted his first cover for *The Saturday Evening Post*, the magazine considered by Rockwell to be the "greatest show window in America." Over the next 47 years, another 321 Rockwell covers would appear on the cover of the *Post*.

Martin J. Benison, Comptroller
One Ashburton Place
Boston, MA 02108

December 23, 2004

To the Citizens of the Commonwealth of Massachusetts, Governor Mitt Romney, Lieutenant Governor Kerry Healey, and Honorable Members of the General Court

I am pleased to transmit the Commonwealth's fiscal 2004 (FY04) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The report is the primary means of reporting the Commonwealth's financial activities. The objective of this report is to provide a clearer picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results on that basis from FY04 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget. Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements on pages 38 to 51 present the governmental operations on a modified accrual basis of accounting. The account groups for long-term debt and fixed assets are excluded in this presentation. The fund perspective is designed to measure inter - period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long - term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting. All fixed assets, including road and bridge infrastructure, are added to the statements as are all long - term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a "net assets format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

To understand the difference between the Commonwealth's budgetary fund balance and the GAAP basis fund perspective balance, as depicted in the fund financial statements and the Commonwealth's governmental financial position under this new presentation, a series of accruals and adjustments must be analyzed as follows:

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets

(Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2004:		
Budgeted Fund Balance	$ 1,892.8	
Non Budgeted Special Revenue Fund Balance	1,592.3	
Capital Projects Fund Balance	364.8	
Governmental Fund Balance - Statutory Basis, June 30, 2004		**$ 3,849.9**
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes		371.1
Owner Controlled Insurance Program Net Assets		159.0
Adjusted Statutory Governmental Fund Balance		**4,380.0**
Accruals, net of allowances and deferrals for increases /(decreases):		
Taxes	$ 788.9	
Medicaid	(178.0)	
Master Settlement Agreement and other Receivables	268.2	
Compensated absences	(248.4)	
Contract Assistance due to Component Units	(211.7)	
Other accruals:		
Uncompensated care liability	(141.9)	
Claims, judgements and other risks	(37.8)	
Workers' compensation and group insurance	(153.3)	
Other accruals, net	(41.6)	
Net increase to governmental fund balances		**44.4**
Governmental fund balance (fund perspective)		**$ 4,424.4**
Plus: Fixed assets including infrastructure		28,585.1
Less: Accumulated depreciation		(6,811.6)
Plus: Deferred revenue, net of other eliminations		642.2
Less: Long term liabilities		(33,181.6)
Total governmental net assets (entity wide perspective)		**$ (6,341.5)**

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management's Discussion and Analysis (MD&A) section, and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth's MD&A can be found immediately following the independent auditor's report from Deloitte and Touche, LLP. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

PROFILE OF THE COMMONWEALTH

REPORTING ENTITY

The financial statements incorporate 153 departments. Due to changes predicated by the FY05 General Appropriations Act, seven of these departments are in the process of being closed or merged. Other departments have been repositioned especially within Health and Human Services. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System (MMARS) operated by the Office of the Comptroller.

In addition, the financial statements include 28 independent public authorities and the State Employees' and Teachers' Retirement Systems. These entities defined as component units meet the criteria for inclusion in the reporting entity in accordance with GAAP, which are further described in Note 1 to the financial statements. For FY04 additional information is presented for College and University foundations in accordance with the implementation of Government Accounting Standards Board (GASB) Statement 39.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, Deloitte & Touche, LLP, together with subcontractors Daniel Dennis & Company, Margaret Carr, CPA and Susan Perna-Damon, CPA with assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2004. OSA also plays a significant role in the audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133.

We express our gratitude to the staff of the respective firms and the Office of the State Auditor for their professionalism, advice and

counsel. The independent auditor's report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: http://www.mass.gov/sao.

The Office of the Comptroller prepares these financial statements and assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

I again would like to express my thanks to the many dedicated employees within the Office of the State Comptroller and across the government who have worked to upgrade the Commonwealth's accounting system, MMARS. This has been a significant effort but will provide enduring benefits to the Commonwealth. I am proud to have all the individuals on my team that help tackle these and other difficult issues of the future.

Respectfully submitted,

Martin J. Benison
Comptroller of the Commonwealth

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Director

Lauren Johnson
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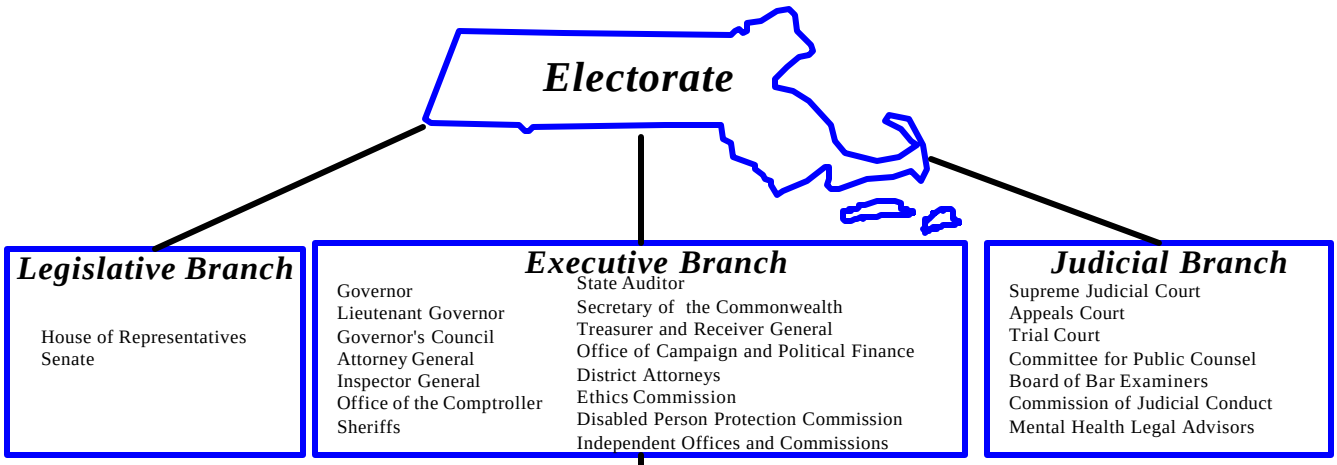

Legislative Branch

House of Representatives
Senate

Executive Branch

Governor
Lieutenant Governor
Governor's Council
Attorney General
Inspector General
Office of the Comptroller
Sheriffs
State Auditor
Secretary of the Commonwealth
Treasurer and Receiver General
Office of Campaign and Political Finance
District Attorneys
Ethics Commission
Disabled Person Protection Commission
Independent Offices and Commissions

Judicial Branch

Supreme Judicial Court
Appeals Court
Trial Court
Committee for Public Counsel
Board of Bar Examiners
Commission of Judicial Conduct
Mental Health Legal Advisors

State Agencies

Administration and Finance
Executive Office Secretary of Administration and Finance
Appellate Tax Board
Bureau of State Office Buildings
Civil Service Commission
Commission Against Discrimination
Department of Revenue
Developmental Disabilities Council
Division of Administrative Law Appeals
Division of Capital Asset Management and Maintenance
George Fingold Library
Group Insurance Commission
Human Resource Division
Information Technology Division
Massachusetts Office on Disability
Operational Services Division
Public Employee Retirement Administration Commission
Teachers' Retirement Board

Public Safety
Executive Office of Public Safety
Chief Medical Examiner
Criminal History Systems Board
Criminal Justice Training Council
Department of Correction
Department of Fire Services
Department of Public Safety
Department of State Police
Massachusetts Emergency Management Agency
Merit Rating Board
Military Division/ Massachusetts National Guard
Parole Board
Registry of Motor Vehicles
Sex Offender Registry

Economic Development
Executive Office of Economic Development
Board of Conciliation and Arbitration
Department of Business & Technology
Department of Labor
Division of Unemployment Assistance
Division of Industrial Accidents
Joint Labor Management Committee
Labor Relations Commission
Division of Workforce Development
Office of Consumer Affairs & Business Regulations
Department of Telecommunications and Energy
Division of Banks
Division of Energy Resources
Division of Insurance
Division of Professional Licensure
Division of Standards
State Racing Commission

Commonwealth Development Coordinating Council

Housing and Community Development
Department of Housing & Community Development

Environmental Affairs
Executive Office of Environmental Affairs
Department of Conservation and Recreation
Department of Environmental Protection
Department of Food and Agriculture
Department of Fish and Game
State Reclamation Board

Transportation and Construction
Executive Office of Transportation and Construction
Massachusetts Highway Department
Massachusetts Aeronautics Commission

Health and Human Services
Executive Office of Health and Human Services
Department of Elder Affairs
Department of Mental Health
Department of Mental Retardation
Department of Public Health
Department of Social Services
Department of Transitional Assistance
Department of Veterans' Services
Department of Youth Services
Division of Medical Assistance
Division of Health Care Finance & Policy
Massachusetts Commission for the Blind
Massachusetts Commission for the Deaf and Hard of Hearing
Massachusetts Rehabilitation Commission
Office for Child Care Services
Office for Refugees and Immigrants
Soldiers' Home Holyoke
Soldiers' Home, Massachusetts

Education
Department of Education
Board of Higher Education
University of Massachusetts System
State and Community Colleges
Educational Quality & Accountability

Board of Library Commissioners

**As of June 30, 2004*

CONSTITUTIONAL OFFICERS

Mitt Romney
Governor

Kerry Healey
Lieutenant Governor

William F. Galvin
Secretary of State

Thomas F. Reilly
Attorney General

Timothy P. Cahill
Treasurer and Receiver-General

A. Joseph DeNucci
Auditor

LEGISLATIVE OFFICERS

Robert E. Travaglini
President of the Senate

Salvatore F. DiMasi
Speaker of the House

JUDICIAL OFFICERS

Margaret H. Marshall
Chief Justice, Supreme Judicial Court

Christopher J. Armstrong
Chief Justice, Appeals Court

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

ADVISORY BOARD TO THE COMPTROLLER

Eric A. Kriss (Chair)
Secretary for Administration and Finance

A. Joseph DeNucci
Auditor

Timothy P. Cahill
Treasurer and Receiver-General

Robert A. Mulligan
Chief Justice for Administration and Management, Trial Court

Thomas F. Reilly
Attorney General

Thomas M. Whitney
Gubernatorial Appointee

Mel Alan Barkan
Gubernatorial Appointee

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Massachusetts

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Nancy L. Zielke

President

Jeffrey R. Esser

Executive Director

Rockwell with *Golden Rule*

1961, Photograph by Louie Lamone

Throughout his sixty-five year career, Norman Rockwell created images that addressed complex social issues, promoted patriotism, and honored individuals, both celebrated and unknown. In portraying such momentous developments as the two world wars, the civil rights movement, and the race to put a man on the moon, Rockwell helped to build public consensus around national events.

> *"Most of the time I try to entertain with my* POST *covers. But once in a while I get an uncontrollable urge to say something serious."*
>
> ***— Norman Rockwell***

Financial Section

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Notes to The Basic Financial Statements

Required Supplementary Information Other Than Management's Discussion and Analysis

Other Supplementary Information

Studio Exterior

Photograph by Art Evans

During his 10-year association, in the mid-sixties, with *Look*, Rockwell painted pictures illustrating some of his deepest concerns and interests, including civil rights, America's war on poverty, and the exploration of space.

Rockwell moved to Stockbridge, MA, in 1953. In 1973, Rockwell established a trust to preserve his artistic legacy by placing his works in the custodianship of the Old Corner House Stockbridge Historical Society, later to become the Norman Rockwell Museum at Stockbridge. The trust now forms the core of the Museum's permanent collections. In 1976, in failing health, Rockwell became concerned about the future of his studio. He arranged to have his studio and its contents added to the trust. In 1977, Rockwell received the nation's highest civilian honor, the Presidential Medal of Freedom, for his "vivid and affectionate portraits of our country." He died at his home in Stockbridge on November 8, 1978, at the age of 84.

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Deloitte.

Deloitte & Touche LLP
200 Berkeley Street
Boston, MA 02116
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Independent Auditors' Report

Mr. Martin J. Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2004, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit any of the financial statements of the institutions of higher education nor their blended component units, which represent 87.6% percent and 41.8% percent, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets and Statement of Activities of the Government-wide Financial Statements. We did not audit 98.7% and 96.7% respectively of the total assets and total revenues of the Commonwealth's component units (as presented in the Statement of Net Assets and the Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Massachusetts State Lottery Commission, which reflect .3% and 13.7% of the assets and the revenues, respectively of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and .1% and 13.6% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Owner Controlled Insurance Program, which represent 1.7% and less than .1% of the assets and the revenues, respectively, of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and .7% and less than .1% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of either the Pension Reserve Investment Trust or the Massachusetts Municipal Depository Trust, which represent 88.1% and 100% of the total assets and total additions, respectively, of the Fiduciary Fund Types (as presented in the Fiduciary Fund Financial Statements). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts, is based on the reports of the other auditors.

Member of
Deloitte Touche Tohmatsu

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal year 2004 the Commonwealth adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*. This standard modifies the criteria for defining component units of a governmental entity. As a result of the implementation of this standard, 26 foundations related to the State colleges and universities have been added as component units. Beginning net assets and fund balances have been restated to account for the implementation of this accounting standard.

As also discussed in Note 1 to the financial statements, the Commonwealth adopted the provisions of GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* in fiscal year 2004. This bulletin clarifies revenue recognition and receivables disclosure with regard to the Master Settlement Agreement with the tobacco industry. The Commonwealth recorded revenue and a receivable for approximately $126,766,000.

The Management's Discussion and Analysis, on pages 17 through 29, as well as the Budgetary Comparison Schedule – All Major Funds and notes thereto, on pages 120 through 124, are not a required part of the basic financial statements but are supplementary information required by the GASB. Such information is the responsibility of management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The Combined Balance Sheet – Non-Major Governmental Funds, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds, the Combining Balance Sheet – Non-Major Special Revenue Funds, the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-Major Special Revenue Funds, the Combining Balance Sheet – Non-Major Capital Projects Funds, and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Capital Projects Funds, presented as Other Supplementary Information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The letter of transmittal and the information provided in the statistical section of this report are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 22, 2004

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Management's Discussion and Analysis

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2004 (FY04). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB) which provides preparers with guidelines on what must be included and excluded from this analysis. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights – Primary Commonwealth Government

Government – Wide Highlights

- **Net Assets** – The liabilities of the Commonwealth exceeded its assets at the end of FY04 by nearly $3.9 billion. Of this amount, "unrestricted net assets" is reported as a negative $11.3 billion. The primary reason for negative unrestricted net assets is that the Commonwealth is incurring long-term obligations to either construct or assist political subdivisions in constructing assets owned by these political subdivisions. For example, upon completion the Central Artery / Third Harbor Tunnel will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth, however, is paying for the construction of these assets and significant debt is being incurred to pay those costs. Similarly, the Commonwealth has a liability of $3.3 billion for its share of the construction costs of schools owned and operated by municipalities. In FY05, legislation will change the funding of school construction from a direct appropriation to a dedicated portion of the sales tax administered by an authority. There are also significant restricted net asset balances set aside for unemployment benefits and debt retirement.

- **Changes in Net Assets** – The Commonwealth's net assets increased by over $1.8 billion in FY04. Net assets of governmental activities increased by the majority of this $1.8 billion. This increase in net assets is primarily attributable to an increase in tax revenues by over $1.2 billion above prior year collections. Net assets of the business – type activities showed an increase of over $41 million. Expenses of governmental activities were over $31.2 billion. General revenue for the Commonwealth, net of transfers, but including taxes, investment income and tobacco settlement income from governmental activities was over $17.4 billion.

Fund Highlights

- **Governmental Funds – Fund Balances** – As of the close of FY04, the Commonwealth's governmental funds reported a combined ending fund balance of over $4.4 billion. Of the $4.4 billion:

- Nearly $994 million, represents unreserved fund balance. This is a turnaround from previous years. However, nearly a $701 million deficit in the highway fund remains due to the timing of accruals. The unreserved general fund balance of over $1.0 billion offsets the highway fund deficit. Pursuant to new accounting standards, $126 million has been declared as a receivable in the governmental funds related to anticipated tobacco settlement proceeds in FY05.

- For FY04, the Legislature adopted a more straightforward definition of fiscal balance to include all of the budgeted activity. The result was the elimination of a number of funds, including the local aid fund. The previous definition of fiscal balance only included the fund balance within three major funds. As a result of these changes, several minor Governmental Funds have also been closed.

- Governmental reserves total over $3.4 billion. They include nearly $639 million for continuing appropriations, over $1.1 billion for stabilization, nearly $735 million in bond proceeds reserved for capital projects, largely connected with the Central Artery / Tunnel (CA/T) project and over $761 million reserved for retirement of indebtedness. Over $159 million is reserved for the CA/T owner controlled insurance program for workers' compensation and general liability. This reserve is net of nearly $83 million of projected long-term claims payable that are only reflected on the statement of net assets.

To meet the fiscal challenges of fiscal 2004 and beyond, the Commonwealth took a series of measures to remain in fiscal balance.

- $531 million was transferred from the Stabilization Fund to pay for current expenditures. However, at the close of the fiscal year, $357 million was redeposited into the fund from tax revenues held aside during FY04. An additional $663.5 million was transferred to the fund from surplus. Beginning in FY06, an additional 0.5% of current year net tax revenues must be deposited into the Stabilization Fund before the year – end surplus is determined in additional to the current statutorily required carry-forward amount. Finally, the ceiling on the balance in the Stabilization Fund was increased from 10% to 15% of total current year budgeted revenues.

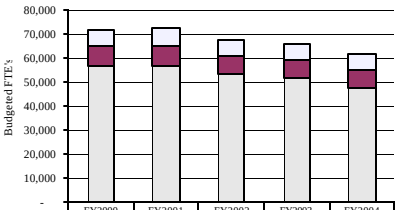
- All of the tobacco settlement proceeds for the year were used in support of current operations.

- The Commonwealth refunded over $2.8 billion in General Obligation Bonds and Grant Anticipation Notes, continuing to take advantage of some of the lowest interest rates in history. An additional $408 million was raised in a crossover refunding of the Grant Anticipation Notes (GANs). This technique results in a legal defeasance of debt, but not an accounting defeasance until the refunded principal is paid in the future.

- To fund a deficit in the Unemployment Compensation Fund due to higher payments to recipients than receipts, the Commonwealth received interest-free loans from the federal government between January and April 2004, incurring a net total liability of $417.9 million. All of these borrowings were paid back in May 2004. The balance of the fund stands at $468.7 million, or about 19% of FY04 benefits paid.

The Commonwealth also took measures operationally to achieve balance.

Budgeted Full Time Equivalent Workforce
Including Budgeted Higher Education
June 2000 – June 2004



	FY2000	FY2001	FY2002	FY2003	FY2004
Constitutional offices	7,171	7,418	7,119	7,056	7,095
Judiciary	8,013	7,944	7,379	7,233	7,103
Governor's authority	57,029	57,100	53,257	51,734	47,843

- The budgeted full time equivalent workforce including higher education, dropped from 66,023 as of June 2003 to 62,041 as of June 2004. The graphic to the left details the reductions over the last five years.

- Starting in FY04, the employee's share of group health insurance premiums increased from 15% to 20% of the cost of the insurance for those who earn more than $35,000. All new employees hired after June 30, 2003 contribute 25% of the cost of the insurance, regardless of salary.

- Tax decreases put in place earlier than FY02 remain frozen. The income tax rate remains at 5.3%. The graduated capital gains tax portion has also been frozen at 5.3%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commonwealth's basic financial statements. The Commonwealth's basic financial statements are composed of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as other supplementary information.

Government – wide Financial Statements and how they relate to other perspectives

The government - wide financial statements present the reader with a broad overview of the Commonwealth's finances in a manner similar to a private sector business. The statements include the *Statement of Net Assets,* which present the assets, liabilities and net assets for the government as a whole. Also presented is the *Statement of Activities*, which presents the functional expenses, offsetting revenues and changes in net assets of the Commonwealth. Both of the statements have separate sections for three different categories of the Commonwealth's operations. These activities are *Governmental Activities, Business-Type Activities and Discretely Presented Component Units.* For FY04, additional information is presented for college and university foundations in accordance with the implementation of Government Accounting Standards Board (GASB) Statement 39.

The government – wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements and Component Unit Financial Statements

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund

accounting to ensure and demonstrate compliance with finance related legal requirements. Their financial statements focus on individual parts of the Commonwealth government, reporting its operations in more detail than the government – wide statements. All of the funds of the Commonwealth can be divided into three categories. It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. The three categories of funds are *Governmental Funds, Proprietary Funds and Fiduciary Funds*. Further discussion on the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in Note 1 to the financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but are independent of the core Commonwealth operations. They operate similar to private - sector businesses.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government – wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

The required supplementary information section includes budgetary comparison schedules for the General and Highway Funds, along with a reconciliation comparing the original general appropriation act, all supplemental appropriations and actual budgetary spending. Variance columns are also provided. GASB Statement 41 - *Budgetary Comparison Schedule Perspective Differences*, which was effective for FY03 and forward, requires a further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures.

Other supplementary information is not mandatory, but is included to present combining schedules of minor governmental funds.

GOVERNMENT – WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) showed a net deficit of nearly $3.9 billion at the end of 2004. The *unrestricted net assets* are negative by nearly $11.3 billion. A substantial portion of this deficit is a result of four programs where the Commonwealth decided to fund assets that it does not own. The most significant example of this is to the aforementioned Commonwealth bonding for the Central Artery / Tunnel Project (CA/T) costs. Pursuant to the Metropolitan Highway System legislation from 1997, the CA/T will transfer to the Massachusetts Turnpike Authority and to the Massachusetts Port Authority (Massport) upon completion. Portions that have not been transferred are shown as payables on the Statement of Net Assets. While the assets will be with the Turnpike Authority and Massport, a large portion of the liabilities will remain with the Commonwealth. Starting in FY04, $10.3 Billion of the related assets to these liabilities have entered into service with the opening of Interstates 93 and 90. The non-right of way portion of these assets is depreciating over forty years until transferred. Depreciation taken on these assets has reduced both

Major Long – Term Obligations for Assets of Political Subdivisions (amounts in millions)

Long - term assistance to authorities	$ 295,591
School construction grants payable	3,259,126
Outstanding bonds issued to fund the MBTA	579,302
Central Artery / Tunnel Project to be transferred to the Turnpike	10,967,508
Central Artery / Tunnel Project to be transferred to Massport	365,000
Change in unrestricted net assets due to items unique to the Commonwealth	$ 15,466,527

the asset and liability accordingly. Another example of this type of arrangement is school building assistance. The Commonwealth has a liability of $3.3 billion for its share of the construction costs of schools owned and operated by municipalities. In FY05, legislation will change the funding of school construction from a direct appropriation to a dedicated portion of the sales tax administered by a newly created Massachusetts School Building Authority.

Two other instances where the Commonwealth incurs debt, but has no related assets relate to authorities. The first is for debt that was issued to fund an 18-month lag in operating subsidy costs, otherwise known as "forward funding," of the Massachusetts Bay Transportation Authority (MBTA) enacted in FY00. The second is the contractual assistance obligations to other authorities to help subsidize their debt service. The majority of these assistance obligations are for the Massachusetts Water Pollution Abatement Trust, the Route 3 North Transportation Improvements Association and the Massachusetts Development Finance Agency. As of June 30, 2004, the outstanding debt remaining related to the "forward funding" costs of the MBTA was approximately $579 million, while obligations for contractual assistance to other authorities was nearly $296 million.

Exclusive of assets where the Commonwealth acts as a fiduciary, the Commonwealth's current cash and investments increased by over $1.0 billion between July 1, 2003 and June 30, 2004. This is directly due to the increased tax, grant and charges for services revenues offset by increases in the Commonwealth's core expenses for debt service, Medicaid, other health and human services and in FY04, public safety. Payments for local aid dropped in FY04, as did costs of primary and secondary education. Higher education costs increased. The year was also marked by a continuation of commercial paper borrowing due to the timing of current year receipts and current year major expenses such as the payment of local aid.

Noncurrent assets increased by nearly $949 million. A total of nearly $23.5 billion of the Commonwealth's net assets reflect the Commonwealth's investment in traditional capital assets such as land, buildings, infrastructure and equipment, net of accumulated depreciation. GASB Statement 34 requires the addition of the value of investment in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets to the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it must be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

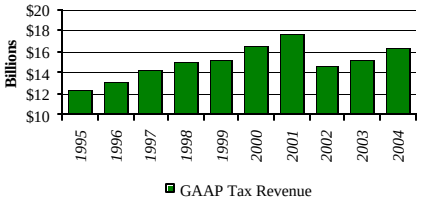
The bulk of the Commonwealth's net assets lie in its capital assets and long – term liabilities. Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year, respectively. The Commonwealth's current assets were over $9.7 billion, while its current liabilities were nearly $5.6 billion. Restricted net assets represent resources that are subject to external constraints on resources. The tables below portray the Commonwealth's net assets and the changes to those net assets for the fiscal year. Note that certain amounts were reclassed from FY03 to conform to the FY04 presentation. In addition, due to the implementation of GASB Statement No. 39, net assets of higher education foundations have been included as part of the business – type activities in FY04. FY03 results for these foundations is not available.

Net Assets as of June 30, 2004 and 2003
(in millions of dollars)

	Governmental Activities		Business - Type Activities		Total Primary Government	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Current and other non-capital assets	$ 8,976	$ 7,264	$ 2,543	$ 2,179	$ 11,519	$ 9,443
Capital assets	21,774	20,883	1,691	1,590	23,464	22,473
Total Assets	30,750	28,147	4,234	3,769	34,983	31,916
Long term liabilities	32,071	30,031	1,205	861	33,276	30,892
Other Liabilities	5,020	6,221	547	566	5,567	6,787
Total Liabilities	37,091	36,252	1,752	1,427	38,843	37,679
Net assets:						
Invested in capital assets, net of related debt	2,033	3,901	1,133	1,073	3,166	4,974
Restricted	3,349	1,154	916	946	4,265	2,100
Unresticted	(11,723)	(13,160)	433	322	(11,290)	(12,838)
Total Net Assets (deficits)	$ (6,341)	$ (8,105)	$ 2,481	$ 2,341	$ (3,860)	$ (5,764)

Changes in Net Assets

Revenue from Taxation – GAAP Basis 1995-2004



The Commonwealth's net assets increased by over $1.8 billion. Revenues in general increased, led by tax revenue increases of $1.2 billion and operating grants and contributions increases of $1.0 billion. Charges for services also increased dramatically by over $1.8 billion due to full year phase in of assessment increases from FY03 and a $541 million increase in unemployment compensation charges. Approximately 50% of the Commonwealth's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which is federal aid. Increases also occurred in restricted net assets amounting to $1.4 billion largely due to an additional crossover refunding of debt and additional amounts set aside for stabilization. This is coupled with decreased spending in the Unemployment Compensation Fund, but slight increases to Higher Education. However, Medicaid spending continued to increase as did other Health and Human Services largely connected to the continual skyrocketing medical costs. Other programmatic expenses remained largely unchanged or dropped due to tighter budget controls.

The Commonwealth's revenues are presented in the table and graphics that follow. Note that certain amounts were reclassed from FY03 to conform to the FY04 presentation. The beginning balance of FY04 business type activities has been restated due to the implementation of GASB Statement No. 39. No prior year data is available for the addition of foundation activities underlying the restatement.

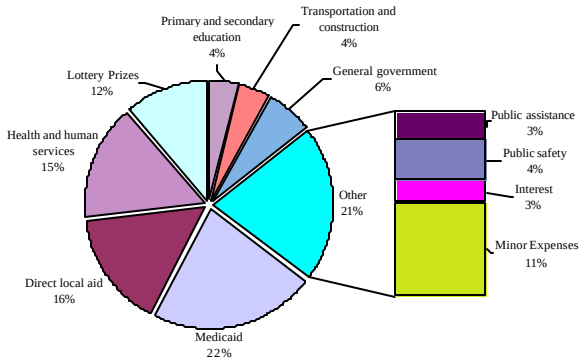
Changes in Net Assets during the Fiscal Years Ended June 30, 2004 and 2003
(in millions of dollars except percentages)

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	June 30, 2004 Percentage	June 30, 2003 Percentage	% Change
Revenues									
Program Revenues:									
Charges for services	$ 7.740	$ 6.652	$ 2.692	$ 1.943	$ 10.432	$ 8.595	27%	25%	2%
Operating grants and contributions	8,017	7,130	1,377	1,250	9,394	8,380	25%	25%	0%
Capital grants and contributions	602	508	-	-	602	508	2%	1%	0%
General Revenues:									
Taxes	16.407	15.162	-	-	16.407	15.162	43%	45%	-1%
Other	1,043	1,180	182	207	1,224	1,387	3%	4%	-1%
Total Revenues	33,808	30,632	4,251	3,400	38,059	34,032	100%	100%	0%
Expenses									
Medicaid	6.909	6.177	-	-	6.909	6.177	19%	17%	2%
Direct local aid	4,877	5,119	-	-	4,877	5,119	13%	14%	-1%
Other health and human services	4.829	4.314	-	-	4.829	4.314	13%	12%	1%
Lottery	3,607	3,470	-	-	3,607	3,470	10%	10%	0%
Higher education	-	-	2.579	2.480	2.579	2.480	7%	7%	0%
Primary and secondary education	1,211	1,385	-	-	1,211	1,385	3%	4%	-1%
Unemployment compensation	-	-	2.461	2.589	2.461	2.589	7%	7%	0%
Other	9,781	10,345	-	-	9,781	10,345	28%	29%	-1%
Total Expenses	31,214	30,811	5,040	5,069	36,254	35,880	100%	100%	0%
Excess / (Deficiency) before transfers	2,594	(179)	(789)	(1,669)	1,805	(1,848)			
Transfers	(830)	(950)	830	950	-	-			
Change in Net assets (deficits)	1,763	(1,129)	41	(719)	1,804	(1,848)			
Net assets - beginning (restated)	(8,105)	(6,976)	2,441	3,060	(5,664)	(3,916)			
Net assets - ending									
Total Net Assets (deficits)	$ (6,341)	$ (8,105)	$ 2,482	$ 2,341	$ (3,860)	$ (5,764)			

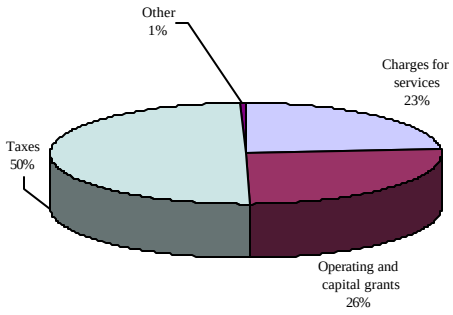
The largest category of tax revenue is income taxes. Of the $16.4 billion in tax revenue within governmental activities, $9.2 billion was from income taxation, $3.8 billion from sales, $975 million from corporations, $685 million from motor fuels and nearly $1.8 billion from other forms of taxation. The largest operating grants are the federal Medicaid subsidies. The largest capital grants are for transportation, including federal grants for the Central Artery / Tunnel project. Finally, Lottery revenues encompass approximately 59% of the Commonwealth's charges for services.

Medicaid represents 22% of all the Commonwealth's governmental expenses. However, it must be noted that over half of the Medicaid expenses are subsidized in the form of federal grants. These subsidies are noted below in the "charges for services" segment. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth. According to the Department of Revenue, Division of Local Services, nearly 73% of these funds are earmarked for public education or related activities. Below is a chart that summarizes governmental expenses of the Commonwealth.

Major Expenses – Governmental Activities
Fiscal Year Ending June 30, 2004

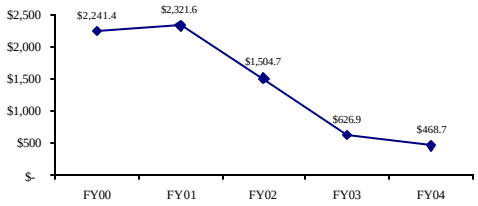


Revenue – Governmental Activities
Fiscal Year Ending June 30, 2004



Business – Type Activities

Unemployment Compensation Fund Net Assets
Fiscal Year Ending June 30, 2004
(*Amounts in Millions*)



Business – type activities are functions that equate to activities of a private enterprise. In the Commonwealth the institutions of higher education are deemed to be business type activities because of their lack of separate taxation. Also, unemployment compensation is considered to be a business – type activity.

The business - type activities increased the Commonwealth's net assets by over $41 million. This primarily resulted from an $158 million decrease in the Commonwealth's Unemployment Compensation Fund net assets due to extended benefits for unemployed workers during the year, despite a 58% increase in contributions.. This decline was offset by a $199 million increase in the net assets of the schools of higher education, largely due to increases in net tuition and fee revenue (by over 22%) and in federal grants and reimbursements (by over 10%).

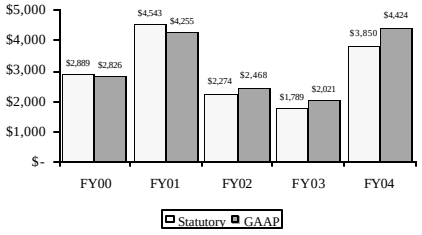
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

As noted earlier, the Commonwealth uses fund accounting to demonstrate interperiod equity and the extent to which current resources are financing the full cost of services that citizens are receiving.

Governmental Funds

Governmental Fund Balance Statutory vs. GAAP

(*Amounts in Millions)*



Governmental funds account for the near term inflows, outflows and balances of spendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

The Commonwealth develops its budgets on a statutory basis. A comprehensive process is conducted with all departments to convert the statutory basis reporting to generally accepted accounting principles. System generated reports from the state accounting system and data warehouses are combined with reports from each of the Commonwealth departments to record governmental fund perspective, departmental accruals. There are four major items which account for almost all the difference between the statutory basis reporting and the governmental fund perspective: accruals for the Medicaid program, compensated absences, claims and judgments and tax revenue accruals. From the governmental fund perspective, additional major adjustments are necessary to present the government wide statements, largely for debt and fixed assets activity.

Governmental Fund Operations - GAAP Basis - Fund Perspective

(Amounts in millions)

	FY00	FY01	FY02	FY03	FY04
Beginning fund balances …….....	$2,673.3	$2,826.1	$4,255.4	$2,467.9	$2,021.0
Restatement due to implementation of GASB 34	-	-	551.2	-	-
Revenues and other financing sources….....	38,174.4	39,256.4	36,476.6	42,798.0	44,371.7
Expenditures and other financing sources.....	38,021.6	37,827.1	38,815.3	43,244.9	41,968.3
Excess / (deficiency)….....	152.8	1,429.3	(1,787.5)	(446.9)	2,403.4
Ending fund balances	$2,826.1	$4,255.4	$2,467.9	$2,021.0	$4,424.4

As of the end of fiscal 2004, the Commonwealth's governmental funds reported combined ending fund balances of over $4.4 billion, an increase of over $2.4 billion from the previous year. However, of the $4.4 billion, the following amounts are reserved or committed:

Governmental Funds - Reserves of Fund Balances

(Amounts in millions)

	2004	2003	Change	Percentage Change
Continuing appropriations	$ 638.5	$ 50.7	$ 587.8	1159%
Commonwealth stablization	1,137.3	641.3	496.0	77%
Retirement of indebtedness	761.3	337.3	424.0	126%
Capital projects	734.7	936.2	(201.5)	-22%
Central artery Workers Compensation and General liability insurance reserve	159.0	200.2	(41.2)	-21%
Unreserved	993.5	(144.7)	1,138.2	
Total Fund Balances	**$ 4,424.4**	**$ 2,021.0**	**$ 2,403.4**	

The percentage change in unreserved is not meaningful, as the FY03 balance was negative. During FY04 over $531 million was used from the stabilization fund to balance the budget. These draws were offset by contributions to the stabilization fund in the amount of over $1.0 billion.

The amounts reserved for capital projects represent projects that are in process, but have been bonded for in advance. As project costs are expended, the reserve will decrease. The bulk of these funds relate to the Central Artery / Tunnel project. The reserve for Central Artery workers' compensation and general liability represents the balance of funds earmarked for claims in an owner controlled insurance program. The reserve will continue to decline as claims arise during the windup of the project. The remaining $994 million of the governmental fund balance is an unreserved fund balance.

During FY04 the general and highway funds were the primary operating funds of the Commonwealth. At the end of the current fiscal year, the fund balance of the general fund was nearly $2.5 billion. Of this amount, over $1.1 billion was apportioned to the Commonwealth's Stabilization Fund. Nearly $346 million was also reserved for continuing appropriations to liquidate contracts and purchase orders from the prior fiscal year in the general fund. The remaining $1.0 billion is unreserved.

The fund balance of the general fund increased by nearly $1.2 billion during FY04.

Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for profit businesses. Proprietary fund financial statements provide the same type of information as the government – wide financial statements, only in greater detail.

As discussed in the business – type activities above, the business type activities decreased the Commonwealth's net assets by over $41 million.

BUDGETARY HIGHLIGHTS

Differences between the original budget and final budget expenditures amount to nearly $672 million, exclusive of transfers. As revenues increased this fiscal year, supplemental budget legislation grew. The supplemental budgets are summarized as follows:

- An economic stimulus package budgeting more than $110 million, creating business tax incentives and a sales tax holiday, along with technology, education and tourism grants.
- Increases in payments for snow plow operators and homeland security by over $52 million.
- A final supplemental budget for nearly $424 million including $76 million in additional spending across all sectors, $92 million in one-time capital spending, $91 million to cure a structural Medicaid deficit, $75 million for additional local aid and $131 million for other programs and services including education and public defenders.

The original budget was passed on June 20, 2003, just before the start of FY04. Transfers of revenues and expenditures, largely related to stabilization activity and taxation transfers resulted in nearly $1.4 billion of additional financial uses, net.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to $32.0 billion, net of accumulated depreciation of $8.5 billion, leaving a net book value of $23.5 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, beaches, piers and dams. Of the investment in capital assets noted above though, $11.6 billion of this amount includes assets that will transfer to the Turnpike Authority and the Massachusetts Port Authority upon completion of the Central Artery / Tunnel project that are in use and depreciating or are right of way. An additional $1.7 billion has already been transferred to these Authorities and other entities of completed portions of the project.

The total increase in the Commonwealth's investment in capital assets from 2003 to 2004 was nearly $991 million, including increases to construction of the CA/T, but net of disposals and changes in accumulated depreciation. An additional $10.6 billion, net, was transferred from construction in process to fixed assets, over $10.3 billion of which was related to CA / T assets transferring to use. Additional information on the Commonwealth's capital assets can be found in the notes to the financial statements.

The following table details the capital asset activity for the Commonwealth. Similar to previous charts, FY04 amounts for business-type activities include amounts for foundations, but FY03 does not.

Changes in Capital Assets
(net of depreciation - amounts in thousands)

	Governmental Activities		Business - type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land, including Central Artery	$ 1,127,714	$ 674,362	$ 59,361	$ 58,478	$ 1,187,075	$ 732,840
Historical treasures	-	-	703	672	703	672
Construction in process	1,023,815	729,867	136,233	154,698	1,160,048	884,565
Construction in process - Central Artery / Tunnel Project	1,244,463	10,650,559	-	-	1,244,463	10,650,559
Buildings	1,982,991	1,888,286	1,128,039	1,000,699	3,111,030	2,888,985
Machinery and equipment	120,869	123,415	260,741	269,359	381,610	392,774
Infrastructure, including Central Artery	16,273,667	6,816,307	-	-	16,273,667	6,816,307
Library collections	-	-	105,590	106,540	105,590	106,540
Total	**$ 21,773,519**	**$ 20,882,796**	**$ 1,690,667**	**$ 1,590,446**	**$ 23,464,186**	**$ 22,473,242**

Debt Administration

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

The Commonwealth issued nearly $4.9 billion in debt this year. Of this amount, $1.9 billion to fund ongoing projects and over $2.9 billion was in the form of general obligation refunding bonds, taking advantage of low interest rates. These refundings generated approximately $96.4 million in present value debt service savings. Subsequent to year-end, the Commonwealth completed an additional refunding transaction which generated an additional $23.7 million in present value debt service savings.

Though the majority of bond sales this year were for transportation related expenditures, for governmental purposes, the $1.9 billion in ongoing projects bond sales also included debt issuances of:

- $20.0 million for the affordable housing trust fund capitalization.
- Over $79.3 million for information technology improvements.
- Nearly $51.5 million for housing preservation and neighborhood loans.
- $693.4 million for the permanent financing of the Boston Convention and Exhibition Center.
- Nearly $121.5 million for improvements to courthouses.
- Nearly $55.8 million for criminal justice purposes.
- Over $758 million in bond principal was repaid.

Additional information on the Commonwealth's short and long–term debt obligations can be found in the notes to the financial statements.

Below is a table, which details the Commonwealth's debt activity for the fiscal year. FY04 amounts include foundation debt for business-type activities. FY03 does not.

Changes in Long - Term Debt Obligations
(net of related premiums and discounts - amounts in thousands)

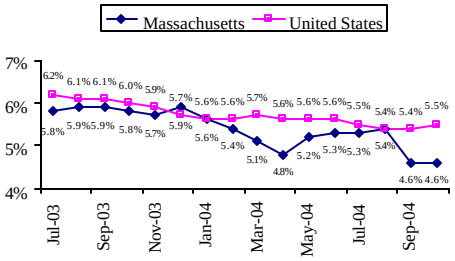
	Governmental Activities		Business - type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	$ 14,142,886	$ 13,724,121	$ -	$ -	$ 14,142,886	$ 13,724,121
Special obligation bonds	1,331,946	739,061	-	-	1,331,946	739,061
Revenue obligation bonds	-	-	1,049,095	673,398	1,049,095	673,398
Grant anticipation notes	1,907,340	1,499,325	-	-	1,907,340	1,499,325
Total	**$ 17,382,172**	**$ 15,962,507**	**$ 1,049,095**	**$ 673,398**	**$ 18,431,267**	**$ 16,635,905**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Massachusetts is starting to recover economically. Our Commonwealth is home to many world-renowned institutions of medicine and higher education, both public and private, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has dropped due to this stabilization.

The Commonwealth with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth's economy remains diversified, but its strongest component is its knowledge – based technology and service industries.

Monthly Unemployment Rate
July 2003 – October 2004



Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and the 2000 US Census, updated in March of 2002, estimated that 34.3% of the residents over age 25 have earned bachelor's degrees, compared to an estimate of 26.7% for the United States as a whole. Massachusetts ranks third in the nation in educational attainment by age 25 within only 1.5% of the leader, Colorado.

Inflation has risen though in the past year. The Boston consumer price index rose 2.9% from July 2003 to July 2004. The largest component of this increase was due to fuel and utilities costs rising 6.0% during the period.

As of October 2004, the unemployment rate in the Commonwealth stood at 4.6%. This figure is down from a high of 5.9% several months last year, the highest rate since November of 1994. The Commonwealth is still below the national rate of 5.5%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: http://www.mass.gov/osc/reports/reports.htm.

Rockwell with Portraits of Dwight D. Eisenhower and Adlai Stevenson

Photo attributed to Bill Scovill, November 3, 1956.

"To us, illustration was an ennobling profession. That's part of the reason I went into illustration. It was a profession with a great tradition, a profession I could be proud of."

— Norman Rockwell

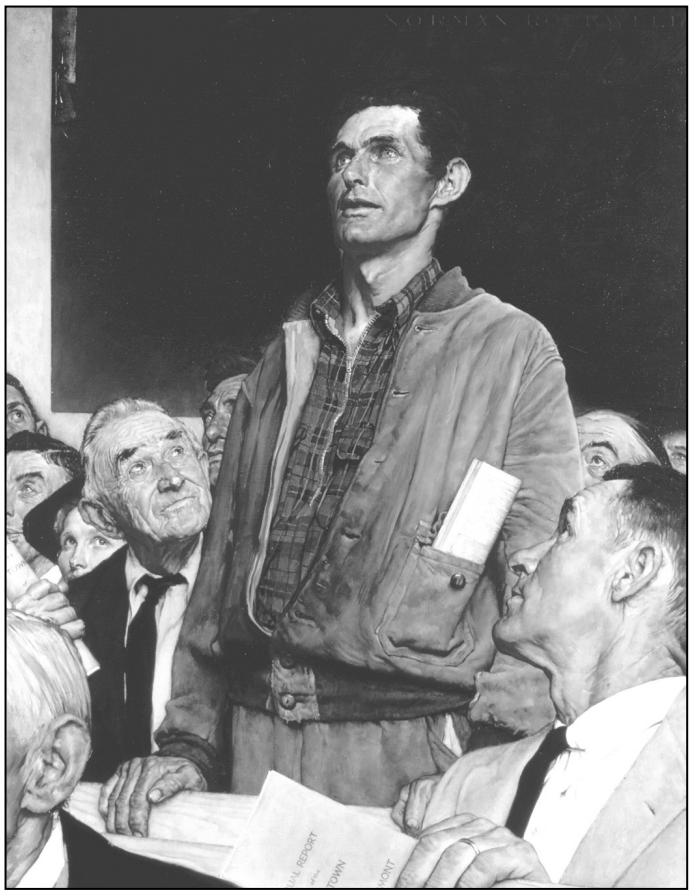
Widespread reappraisal of Rockwell's legacy by serious scholars and the mainstream media, ranging from art historian Robert Rosenblum to author John Updike, are praising Rockwell's work and refocusing attention on his skill as an artist and on his vision of American society that showcase our nation's ideals of kindness, tolerance, democracy, and freedom, as interpreted through his spirit, wisdom, and gentle humor.

BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

Statement of Net Assets

Statement of Activities



Freedom of Speech

The Saturday Evening Post, February 20, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Inspired by President Franklin D. Roosevelt's January 6, 1941 State of the Union address where he spoke of the four fundamental freedoms of all Americans: freedom from fear, freedom from want, freedom of speech, and freedom to worship, Norman Rockwell painted these ***Four Freedoms***.

This illustration was the first in the series. After attending a town meeting in Arlington, Vermont, Rockwell realized that he had found the idea he needed to get started. As in so many of his pictures, Rockwell includes himself. He is the person furthest back on the left. In ***Freedom of Speech***, Rockwell depicts an ordinary man, standing amongst neighbors at a town meeting and speaking his mind. Rockwell's neighbor, Jim Edgerton, served as inspiration for the figure.

Statement of Net Assets

June 30, 2004

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 3,546,988	$ 223,682	$ 3,770,670	$ 641,766
Cash with fiscal agent	963,451	-	963,451	-
Short-term investments	-	239,169	239,169	448,779
Receivables, net of allowance for uncollectibles:				
Taxes	2,118,338	-	2,118,338	-
Federal grants and reimbursements receivable	1,592,658	43,864	1,636,522	54,700
Loans	-	39,170	39,170	145,517
Other receivables	348,302	550,204	898,506	142,848
Due from cities and towns	2,674	-	2,674	20,052
Due from component units	29,461	-	29,461	-
Due from primary government	-	-	-	218,675
Due from affiliates	-	5,333	5,333	-
Inventory	-	-	-	56,267
Other current assets	-	34,251	34,251	22,768
Total current assets	**8,601,872**	**1,135,673**	**9,737,545**	**1,751,372**
Noncurrent assets:				
Cash and cash equivalents - restricted	374,568	679,231	1,053,799	1,169,798
Long-term investments	-	497,861	497,861	1,224,839
Restricted investments	-	10,860	10,860	801,996
Accounts receivable, net	-	32,154	32,154	43,787
Loans receivable, net	-	16,003	16,003	2,421,749
Due from primary government	-	-	-	333,228
Capital assets, net of accumulated depreciation	21,773,519	1,690,668	23,464,187	11,065,403
Other noncurrent assets	-	31,652	31,652	71,477
Other noncurrent assets - restricted	-	140,045	140,045	-
Total noncurrent assets	**22,148,087**	**3,098,474**	**25,246,561**	**17,132,277**
Total assets	**30,749,959**	**4,234,147**	**34,984,106**	**18,883,649**
Liabilities				
Current liabilities:				
Accounts payable and other liabilities	2,414,750	168,633	2,583,383	424,090
Accrued payroll	59,001	110,443	169,444	9,702
Compensated absences	248,409	92,577	340,986	18,549
Accrued interest payable	300,344	8,434	308,778	203,281
Tax refunds and abatements payable	724,597	17,030	741,627	-
Due to component units	241,123	-	241,123	-
Due to primary government	-	-	-	29,461
Due to federal government	19,331	-	19,331	-
Claims and judgments	37,750	-	37,750	-
Deferred revenue	-	67,036	67,036	18,090
Deposits and unearned revenue	-	18,186	18,186	-
Due to affiliates	-	5,333	5,333	-
Capital leases	19,185	15,852	35,037	11,596
Bonds, notes payable and other obligations	955,372	43,621	998,993	387,800
Total current liabilities	**5,019,862**	**547,145**	**5,567,007**	**1,102,569**

(concluded)

Statement of Net Assets

June 30, 2004

(Amounts in thousands)

	Primary Government			
	Governmental Activities	Business Type Activities	Government Wide Total	Component Units
Noncurrent liabilities:				
Compensated absences	160,201	55,250	215,451	5,940
Accrued interest payable	-	-	-	53,904
Due to federal government - grants	-	8,578	8,578	-
Claims and judgments	82,700	-	82,700	-
Deferred revenue	-	14,243	14,243	97,616
Capital leases	38,715	58,119	96,834	528,761
Bonds, notes payable and other obligations	16,501,900	1,005,474	17,507,374	10,024,232
Due to component units - Central Artery / Tunnel Project	10,967,508	-	10,967,508	-
Due to non-component Units - Central Artery / Tunnel Project	365,000	-	365,000	-
School construction grants and other contract assistance payable	3,592,354	-	3,592,354	-
Boston teacher's retirement system net pension obligation	95,480	-	95,480	-
Other noncurrent liabilities	267,690	63,111	330,801	234,236
Total noncurrent liabilities	**32,071,548**	**1,204,775**	**33,276,323**	**10,944,689**
Total liabilities	**37,091,410**	**1,751,920**	**38,843,330**	**12,047,258**
Net assets				
Invested in capital assets, net of related debt	2,032,958	1,132,637	3,165,595	5,586,092
Restricted for:				
Capital projects	734,747	-	734,747	3,397
Unemployment benefits	-	468,734	468,734	-
Retirement of indebtedness	761,285	-	761,285	6,753
Central artery workers' compensation and general liability	76,313	-	76,313	-
Other purposes	1,775,830	446,849	2,222,679	446,901
Unrestricted	(11,722,584)	434,007	(11,288,577)	793,248
Total net assets	**$ (6,341,451)**	**$ 2,482,227**	**$ (3,859,224)**	**$ 6,836,391**

The notes to the financial statements are an integral part of this statement. *(concluded)*

Statement of Activities

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental Activities:								
General government	$ 2,016,145	$ 463,132	$ 84,581	$ -	$ (1,468,432)	$ -	$ (1,468,432)	$ -
Judiciary	538,434	101,994	1,221	-	(435,219)	-	(435,219)	-
Direct local aid	4,877,089	-	-	-	(4,877,089)	-	(4,877,089)	-
Medicaid	6,909,412	687,535	3,731,215	-	(2,490,662)	-	(2,490,662)	-
Group health insurance	778,072	98,598	-	-	(679,474)	-	(679,474)	-
Public assistance	1,019,068	-	369,581	-	(649,487)	-	(649,487)	-
Interest (unallocated)	788,908	-	-	-	(788,908)	-	(788,908)	-
Pension	241,845	-	-	-	(241,845)	-	(241,845)	-
Environmental and recreation	332,149	152,632	43,933	-	(135,584)	-	(135,584)	-
Communities and development	589,603	1,446	403,250	-	(184,907)	-	(184,907)	-
Health and human services	4,829,293	861,899	2,197,721	-	(1,769,673)	-	(1,769,673)	-
Transportation and construction	1,304,042	13,687	17,599	602,449	(670,306)	-	(670,306)	-
Education	1,211,256	11,644	856,737	-	(342,876)	-	(342,876)	-
Public safety	1,401,062	564,023	129,010	-	(708,028)	-	(708,028)	-
Consumer	379,631	179,794	182,620	-	(17,218)	-	(17,218)	-
Lottery	3,606,608	4,603,204	-	-	996,596	-	996,596	-
Depreciation (unallocated)	391,831	-	-	-	(391,831)	-	(391,831)	-
Total governmental activities	**31,214,448**	**7,739,588**	**8,017,469**	**602,449**	**(14,854,942)**	**-**	**(14,854,942)**	**-**
Business-Type Activities:								
Unemployment Compensation	2,461,293	1,481,803	811,278	-	-	(168,212)	(168,212)	-
Higher Education:								
University of Massachusetts	1,597,676	822,668	401,750	-	-	(373,258)	(373,258)	-
State Colleges	456,022	222,740	41,539	-	-	(191,743)	(191,743)	-
Community Colleges	525,179	165,257	122,099	-	-	(237,823)	(237,823)	-
Total business-type activities	**5,040,170**	**2,692,468**	**1,376,666**	**-**	**-**	**(971,037)**	**(971,037)**	**-**
Total primary government	**$ 36,254,618**	**$ 10,432,056**	**$ 9,394,135**	**$ 602,449**	**(14,854,942)**	**(971,037)**	**(15,825,979)**	**-**
Component Units:								
Massachusetts Bay Transportation Authority	$ 1,314,503	$ 344,936	$ 823,717	$ 232,618	-	-	-	86,768
Massachusetts Turnpike Authority	361,456	287,386	14,992	311,167	-	-	-	252,089
Massachusetts Water Pollution Abatement Trust	166,199	2,040	7,853	37,815	-	-	-	(118,491)
Other nonmajor component units	439,270	262,491	192,313	248,342	-	-	-	263,876
Total component units	**$ 2,281,428**	**$ 896,853**	**$ 1,038,875**	**$ 829,942**	**-**	**-**	**-**	**484,242**

(continued)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
General revenues:				
Taxes:				
Income	$ 9,175,577	$ -	$ 9,175,577	$ -
Sales taxes	3,755,773	-	3,755,773	-
Corporate taxes	974,732	-	974,732	-
Motor and special fuel taxes	684,621	-	684,621	-
Other taxes	1,816,078	-	1,816,078	-
Miscellaneous:				
Investment earnings	73,861	59,125	132,986	200,893
Tobacco settlement	253,621	-	253,621	-
Contribution from municipalities	38,740	-	38,740	-
Other revenue	676,482	122,594	799,076	(9,085)
Transfers	(830,453)	830,453	-	-
Total general revenues and transfers	**16,619,033**	**1,012,172**	**17,631,205**	**191,808**
Change in net assets	**1,764,090**	**41,136**	**1,805,226**	**676,050**
Net assets - beginning (restated)	(8,105,541)	2,441,091	(5,664,450)	6,160,341
Net assets - ending	**$ (6,341,451)**	**$ 2,482,227**	**$ (3,859,224)**	**$ 6,836,391**

The notes to the financial statements are an integral part of this statement. *(concluded)*

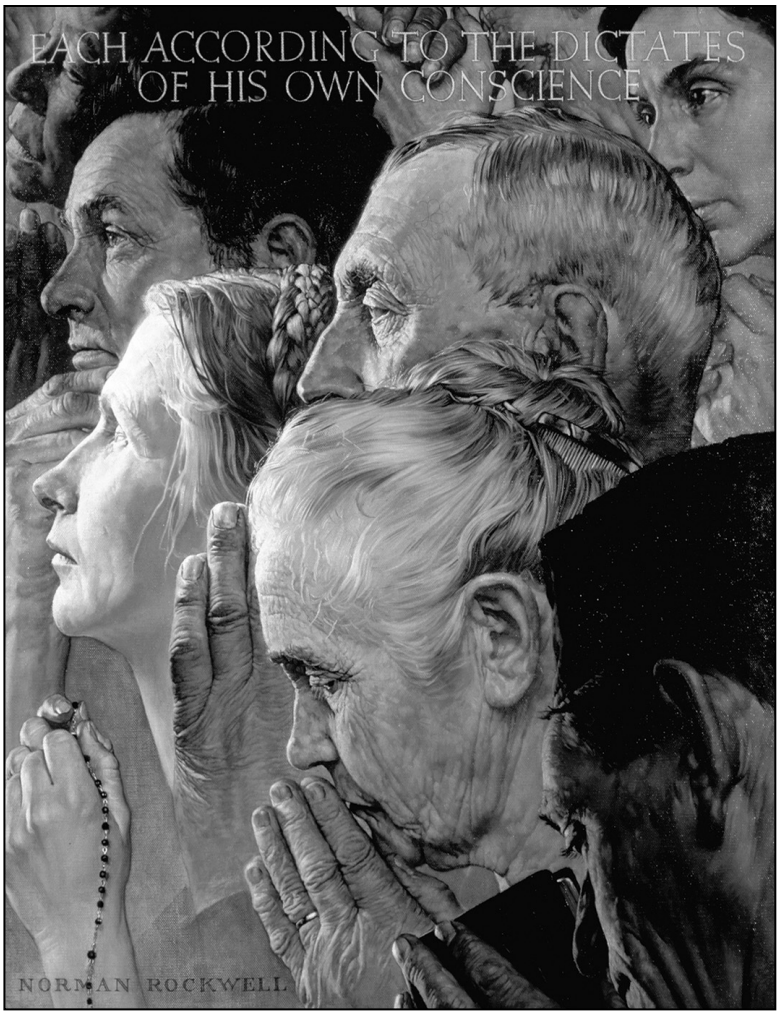
Freedom from Want

The Saturday Evening Post, March 6, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Rockwell said, "I'll express the ideas of the ***Four Freedoms*** in simple, everyday scenes. . . . Take them out of the noble language of the proclamation and put them in terms that everybody can understand."

On Thanksgiving Day, Rockwell photographed his cook presenting the turkey to his family. "She cooked it, I painted it, we ate it," Rockwell reported. "That was one of the few times I've ever eaten the model."

Governmental Fund Financial Statements



Freedom to Worship

The Saturday Evening Post, February 27, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

In ***Freedom to Worship***, Rockwell departs from his established story-telling style and illustrates in close-up profile a group of praying men and women, lit by a soft, golden light.

The monochromatic color scheme of this painting enabled Rockwell to minimize the differences between people of various racial and ethnic backgrounds.

Balance Sheet

Governmental Funds
June 30, 2004
(Amounts in thousands)

	General	Highway	Lotteries	Debt Service	Capital Projects: Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
ASSETS							
Cash and short-term investments	$ 2,048,751	$ -	$ 33,698	$ -	$ -	$ 1,464,539	$ 3,546,988
Cash with fiscal agent	-	26,064	-	134,182	79,999	723,206	963,451
Restricted investments	-	-	-	-	-	374,568	374,568
Receivables, net of allowance for uncollectibles:							
Taxes	1,998,295	49,997	-	-	-	70,046	2,118,338
Due from federal government	756,003	-	-	-	-	836,655	1,592,658
Other receivables	118,426	2,550	4,877	-	-	222,449	348,302
Due from cities and towns	2,674	-	-	-	-	-	2,674
Due from other funds	1,477,078	47	-	-	691,992	479,180	2,648,297
Due from component units	29,461	-	-	-	-	-	29,461
Total assets	**$ 6,430,688**	**$ 78,658**	**$ 38,575**	**$ 134,182**	**$ 771,991**	**$ 4,170,643**	**$ 11,624,737**
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 1,381,608	$ 7,960	$ 30,252	$ -	$ 39,410	$ 920,115	$ 2,379,345
Accrued payroll	50,653	3,717	-	-	-	4,631	59,001
Compensated absences	199,085	19,092	2,147	-	-	28,085	248,409
Tax refunds and abatements payable	723,637	-	-	-	-	960	724,597
Due to other funds	792,874	710,594	-	-	-	1,134,870	2,638,338
Due to component units	115,961	11,344	-	-	-	113,818	241,123
Due to federal government	19,284	-	-	-	-	47	19,331
Deferred revenue	643,489	96	5,484	-	-	3,120	652,189
Claims and judgments	6,650	-	-	-	-	31,100	37,750
Bonds, notes payable and certificates of participation	-	-	-	-	-	75,100	75,100
Other accrued liabilities	-	-	-	-	-	125,148	125,148
Total liabilities	**3,933,241**	**752,803**	**37,883**	**-**	**39,410**	**2,436,994**	**7,200,331**
Fund balances (deficits):							
Reserved for continuing appropriations	345,658	424	-	-	-	292,428	638,510
Reserved for Commonwealth stabilization	1,137,320	-	-	-	-	-	1,137,320
Reserved for retirement of indebtedness	-	26,064	-	134,182	79,999	521,040	761,285
Reserved for capital projects	-	-	-	-	652,582	82,165	734,747
Reserved for central artery workers' compensation and general liability	-	-	-	-	-	159,013	159,013
Unreserved	1,014,469	(700,633)	692	-	-	679,003	993,531
Fund balances (deficits)	**2,497,447**	**(674,145)**	**692**	**134,182**	**732,581**	**1,733,649**	**4,424,406**
Total liabilities and fund balances	**$ 6,430,688**	**$ 78,658**	**$ 38,575**	**$ 134,182**	**$ 771,991**	**$ 4,170,643**	**$ 11,624,737**

The notes to the financial statements are an integral part of this statement.

Reconciliation of Fund Balances to the Statement of Net Assets

June 30, 2004

(Amounts in thousands)

Total fund balances - governmental funds		**$ 4,424,406**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	$ 685,432	
Construction in process	1,023,815	
Depreciable capital assets and infrastructure, net of $ 6,564,302 of accumulated depreciation	8,731,764	
Central Artery / Tunnel Project construction in process	1,244,462	
Central Artery / Tunnel Project untransferred assets in use net of $ 247,327 accumulated depreciation	10,088,046	
Capital assets, net of accumulated depreciation		21,773,519
Amounts presented in the statement of net assets, but not in fund balances due to differences in revenue recognition under different bases of accounting		652,189
Elimination of due from / due to activity between state departments within primary government and business type activities		(9,959)
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:		
Pension underfunding Boston Teacher's Retirement System net pension obligation	(95,480)	
Bonded debt	(17,382,172)	
Accrued interest on bonds and contract assistance payable.	(210,601)	
School construction grants payable	(3,259,126)	
Contract assistance payable	(333,228)	
Amounts to be transferred to component units and related organizations in conjunction with the Central Artery / Tunnel Project	(11,332,508)	
Capital leases (including accrued interest)	(57,900)	
Claims and judgments	(82,700)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims	(427,891)	
Long - term liabilities (including current portions)		(33,181,606)
Total net assets - governmental activities		**$ (6,341,451)**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	General	Highway	Lotteries	Debt Service	Capital Projects: Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
Revenues:							
Taxes	$ 14,640,568	$ 585,529	$ 1,699	$ -	$ -	$ 905,575	$ 16,133,371
Assessments	110,211	11,490	-	-	-	651,024	772,725
Federal grants and reimbursements	4,294,639	1,952	-	-	-	4,322,854	8,619,445
Departmental	1,242,653	398,304	4,603,074	-	-	943,038	7,187,069
Miscellaneous	142,086	1,390	1,948	-	11,414	665,873	822,711
Total revenues	**20,430,157**	**998,665**	**4,606,721**	**-**	**11,414**	**7,488,364**	**33,535,321**
Expenditures:							
Current:							
Legislature	50,607	-	-	-	-	-	50,607
Judiciary	572,906	-	-	-	-	4,083	576,989
Inspector General	2,311	-	-	-	-	-	2,311
Governor and Lieutenant Governor	4,899	-	-	-	-	-	4,899
Secretary of the Commonwealth	34,302	-	-	-	-	8,618	42,920
Treasurer and Receiver-General	50,496	1,151	3,606,608	-	-	877,097	4,535,352
Auditor of the Commonwealth	16,208	-	-	-	-	275	16,483
Attorney General	39,349	432	-	-	-	12,041	51,822
Ethics Commission	1,261	-	-	-	-	-	1,261
District Attorney	73,889	3,011	-	-	-	9,400	86,300
Office of Campaign and Political Finance	997	-	-	-	-	-	997
Sheriff's Departments	214,987	359	-	-	-	2,796	218,142
Disabled Persons Protection Commission	1,569	-	-	-	-	48	1,617
Board of Library Commissioners	3,169	-	-	-	-	3,219	6,388
Comptroller	8,488	-	-	-	-	-	8,488
Administration and finance	1,266,696	5,750	-	-	-	234,101	1,506,547
Environmental affairs	159,638	123	-	-	-	65,664	225,425
Communities and development	65,156	156	-	-	-	404,298	469,610
Health and human services	4,500,487	-	-	-	-	2,331,149	6,831,636
Transportation and construction	86,789	42,688	-	-	-	59,921	189,398
Education	753,559	-	-	-	-	833,163	1,586,722
Higher education	87,223	-	-	-	-	11,783	99,006
Public safety	644,629	244,687	-	-	-	149,277	1,038,593
Consumer affairs	61,491	61	-	-	-	314,459	376,011
Medicaid	5,200,738	-	-	-	-	744,856	5,945,594
Pension	208,914	2,593	-	-	-	-	211,507
Direct local aid	4,855,183	-	-	-	-	6,272	4,861,455
Capital outlay:							
Local aid	-	-	-	-	-	15,634	15,634
Capital acquisition and construction	-	-	-	-	368,774	1,751,634	2,120,408
Debt service	-	-	-	1,604,850	-	-	1,604,850
Total expenditures	**18,965,941**	**301,011**	**3,606,608**	**1,604,850**	**368,774**	**7,839,788**	**32,686,972**
Excess (deficiency) of revenues over (under) expenditures	**1,464,216**	**697,654**	**1,000,113**	**(1,604,850)**	**(357,360)**	**(351,424)**	**848,349**

(continued)

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	General	Highway	Lotteries	Debt Service	Capital Projects: Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total
Other financing sources:							
Proceeds of general obligation bonds	-	-	-	-	80,004	1,913,076	1,993,080
Proceeds of refunding bonds	-	-	-	2,832,866	-	469,106	3,301,972
Proceeds of capital leases	10,664	-	-	-	-	-	10,664
Transfers in for debt service	-	-	-	1,507,534	-	-	1,507,534
Ttransfers in	1,877,437	68,998	-	-	73,808	2,002,887	4,023,130
Total other financing sources	**1,888,101**	**68,998**	**-**	**4,340,399**	**153,812**	**4,385,069**	**10,836,379**
Other financing uses:							
Payments to refunded bond escrow agent	-	-	-	2,832,866	-	-	2,832,866
Transfers out	581,953	125,161	985,236	-	89	2,267,458	3,959,897
Transfers of appropriations	823,808	-	-	-	-	505	824,313
Transfers of bond proceeds	-	-	-	-	-	59,414	59,414
Transfers out for debt service	759,026	733,207	-	-	-	112,617	1,604,850
Total other financing uses	**2,164,787**	**858,368**	**985,236**	**2,832,866**	**89**	**2,439,994**	**9,281,340**
Total other financing sources and uses	**(276,686)**	**(789,370)**	**(985,236)**	**1,507,534**	**153,723**	**1,945,075**	**1,555,040**
Net change in fund balances	**1,187,530**	**(91,716)**	**14,877**	**(97,317)**	**(203,637)**	**1,593,651**	**2,403,389**
Fund balances (deficits) at beginning of year	1,309,917	(582,429)	(14,185)	231,498	936,218	139,998	2,021,017
Fund balances (deficits) at end of year	**$ 2,497,447**	**$ (674,145)**	**$ 692**	**$ 134,182**	**$ 732,581**	**$ 1,733,649**	**$ 4,424,406**

The notes to the financial statements are an integral part of this statement.

(concluded)

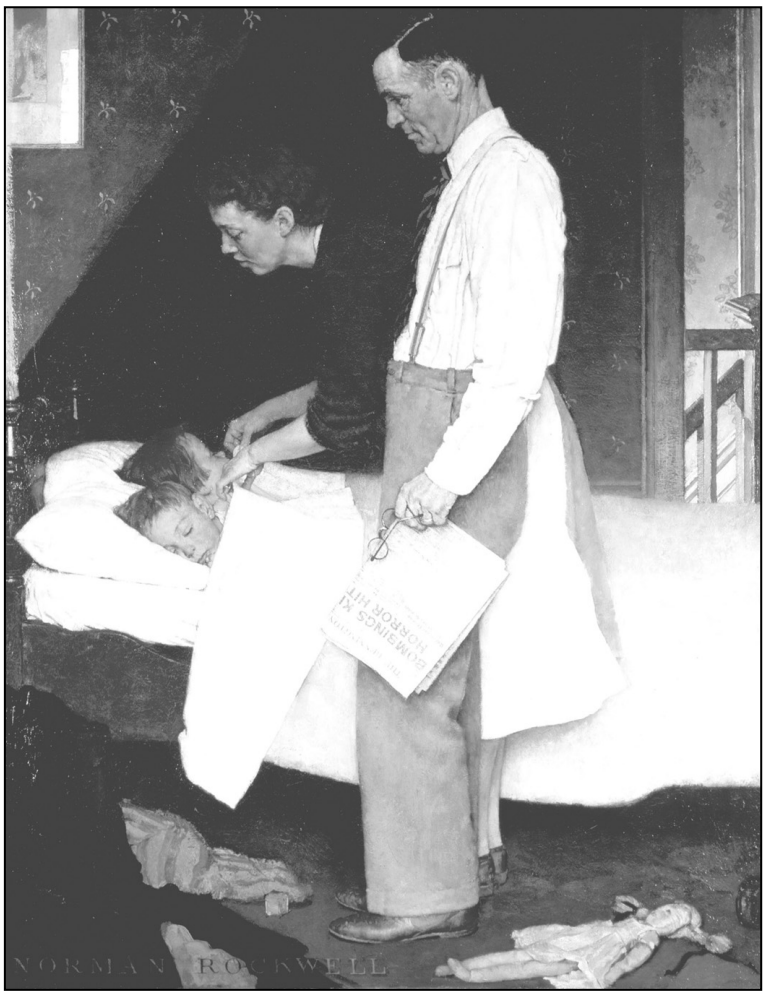
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the fiscal year ended June 30, 2004
(Amounts in thousands)

Net change in fund balances - total governmental funds	**$ 2,403,389**
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, including increases to construction in process, but excluding reductions and dispositions	208,774
Amounts presented in the statement of activities, but not in the change in fund fund balances due to difference in revnue and expense recognition under different bases of accounting	270,471
Elimination of due from / due to activity between state departments within government and business-type activities	(9,959)
The issuance of long - term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long - term debt and related items	(1,419,666)
Pension Underfunding Boston Teachers' Retirement System Net Obligation	(30,338)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds	341,419
Change in net assets of governmental activities	**$ 1,764,090**

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUND FINANCIAL STATEMENTS



Freedom from Fear

The Saturday Evening Post, March 13, 1943 ©1943 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Freedom from Fear was the last of the four ideas to be done. These paintings succeeded in raising almost $133 million in war-bond purchases. Norman Rockwell said the ***Four Freedoms*** were "serious paintings which sucked the energy right out of me, leaving me dazed and thoroughly weary."

In a personal letter to Rockwell, President Roosevelt wrote, "I think you have done a superb job in bringing home to the plain, everyday citizen the plain, everyday truths behind the Four Freedoms . . . I congratulate you not alone on the execution but also for the spirit which impelled you to make this contribution to the common cause for a freer, happier world."

Statement of Net Assets

Proprietary Funds

June 30, 2004

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Assets					
Current assets:					
Cash and cash equivalents	$ -	$ 58,601	$ 101,021	$ 64,060	$ 223,682
Short-term investments	-	181,999	27,859	29,311	239,169
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable	-	43,864	-	-	43,864
Loans	-	37,436	1,469	265	39,170
Other receivables	401,940	118,287	11,842	18,135	550,204
Due from affiliates	-	5,200	-	133	5,333
Other current assets	-	26,199	3,347	4,705	34,251
Total current assets	**401,940**	**471,586**	**145,538**	**116,609**	**1,135,673**
Noncurrent assets:					
Cash and cash equivalents - restricted	-	661,104	13,970	4,157	679,231
Long-term investments	-	401,170	49,482	47,209	497,861
Restricted investments	-	-	6,206	4,654	10,860
Accounts receivable, net	-	31,707	380	67	32,154
Loans receivable, net	-	-	14,374	1,629	16,003
Capital assets, net of accumulated depreciation	-	1,164,719	271,162	254,787	1,690,668
Other noncurrent assets	-	24,861	3,757	3,034	31,652
Other noncurrent assets - restricted	122,449	-	9,492	8,104	140,045
Total noncurrent assets	**122,449**	**2,283,561**	**368,823**	**323,641**	**3,098,474**
Total assets	**524,389**	**2,755,147**	**514,361**	**440,250**	**4,234,147**
Liabilities					
Current liabilities:					
Accounts payable and other liabilities	21,355	117,295	13,705	16,278	168,633
Accrued payroll	-	76,075	15,528	18,840	110,443
Compensated absences	-	56,453	16,771	19,353	92,577
Accrued interest payable	-	8,006	88	340	8,434
Tax refunds and abatements payable	17,030	-	-	-	17,030
Deferred revenue	17,270	35,156	11,700	2,910	67,036
Student deposits and unearned revenues	-	3,884	5,402	8,900	18,186
Due to affiliates	-	5,200	-	133	5,333
Capital leases	-	8,315	3,199	4,338	15,852
Bonds, notes payable and other obligations	-	40,685	1,309	1,627	43,621
Total current liabilities	**55,655**	**351,069**	**67,702**	**72,719**	**547,145**
Noncurrent liabilities:					
Compensated absences	-	24,721	13,853	16,676	55,250
Due to federal government - grants	-	-	6,752	1,826	8,578
Deferred revenue	-	10,607	3,636	-	14,243
Capital leases	-	36,426	8,835	12,858	58,119
Bonds, notes payable and other obligations	-	923,669	47,797	34,008	1,005,474
Other noncurrent liabilities	-	48,426	10,393	4,292	63,111
Total noncurrent liabilities	**-**	**1,043,849**	**91,266**	**69,660**	**1,204,775**
Total liabilities	**55,655**	**1,394,918**	**158,968**	**142,379**	**1,751,920**
Net assets:					
Invested in capital assets, net of related debt	-	714,133	211,070	207,434	1,132,637
Restricted for:					
Unemployment benefits	468,734	-	-	-	468,734
Other purposes	-	327,883	77,453	41,513	446,849
Unrestricted	-	318,213	66,870	48,924	434,007
Total net assets	**$ 468,734**	**$ 1,360,229**	**$ 355,393**	**$ 297,871**	**$ 2,482,227**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution	$ 1,441,522	$ -	$ -	$ -	$ 1,441,522
Net tuition and fees	-	361,762	158,513	129,991	650,266
Federal grants and reimbursements	811,278	401,750	41,539	122,099	1,376,666
Miscellaneous	40,281	460,906	64,227	35,266	600,680
Total operating revenues	**2,293,081**	**1,224,418**	**264,279**	**287,356**	**4,069,134**
Operating expenses:					
Unemployment compensation	2,461,293	-	-	-	2,461,293
Instruction	-	401,416	160,329	199,631	761,376
Research	-	284,433	2,521	79	287,033
Academic support	-	97,559	45,749	63,447	206,755
Student services	-	70,962	47,586	70,051	188,599
Scholarships and fellowships	-	29,424	6,105	31,018	66,547
Public service	-	212,623	3,781	5,765	222,169
Operation and maintenance of plant	-	103,736	57,753	47,572	209,061
Institutional support	-	114,423	60,781	66,376	241,580
Other operating expenses	-	27,189	3,893	2,965	34,047
Depreciation	-	101,488	18,588	20,402	140,478
Auxiliary operations	-	124,127	47,826	15,852	187,805
Total operating expenses	**2,461,293**	**1,567,380**	**454,912**	**523,158**	**5,006,743**
Operating loss	**(168,212)**	**(342,962)**	**(190,633)**	**(235,802)**	**(937,609)**
Nonoperating revenues (expenses) and transfers:					
Other revenues	-	78,717	17,384	26,493	122,594
Other expenses	-	(30,296)	(1,110)	(2,021)	(33,427)
Investment income	10,084	36,137	7,132	5,772	59,125
Transfers	-	392,037	204,757	233,659	830,453
Nonoperating revenues and transfers, net	**10,084**	**476,595**	**228,163**	**263,903**	**978,745**
Change in net assets	**(158,128)**	**133,633**	**37,530**	**28,101**	**41,136**
Total net assets - beginning (restated)	626,862	1,226,596	317,863	269,770	2,441,091
Total net assets - ending	**$ 468,734**	**$ 1,360,229**	**$ 355,393**	**$ 297,871**	**$ 2,482,227**

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows - Combining

Proprietary Funds
June 30, 2004
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Colleges	Community Colleges	Total
Cash flows from operating activities:					
Collection of unemployment contributions	$ 2,447,472	$ -	$ -	$ -	$ 2,447,472
Tuition, residence, dining and other student fees	-	369,457	159,982	133,926	663,365
Research grants and contracts	-	391,986	40,413	119,460	551,859
Payments to suppliers	-	(417,243)	(139,484)	(137,320)	(694,047)
Payments to employees	-	(878,457)	(239,426)	(298,890)	(1,416,773)
Payments to students	-	(34,804)	(10,749)	(25,029)	(70,582)
Payments for unemployment benefits	(2,500,492)	-	-	-	(2,500,492)
Collection of loans to students and employees	-	7,648	1,830	174	9,652
Income from contract services	-	273,802	3,262	1,508	278,572
Maintenance costs	-	-	-	504	504
Auxilliary enterprise charges	-	193,354	22,234	(29)	215,559
Other receipts	40,281	(174,540)	18,628	27,012	(88,619)
Net cash provided by (used by) operating activities	**(12,739)**	**(268,797)**	**(143,310)**	**(178,684)**	**(603,530)**
Cash flows from non-capital financing activities:					
State appropriations	-	402,439	171,218	186,686	760,343
Grants and contracts	-	22,834	958	647	24,439
Student organizations agency transactions	-	1,338	(1)	79	1,416
Assignment of perkins loans	-	2	(5,632)	2,575	(3,055)
Net cash provided by (used by) non-capital financing activities	**-**	**426,613**	**166,543**	**189,987**	**783,143**
Cash flows from capital and related financing activities:					
Capital appropriations	-	21,725	2,703	27,632	52,060
Purchases of capital assets	-	(119,776)	(21,995)	(33,856)	(175,627)
Proceeds from debt issuance	-	454,307	1,565	30	455,902
Other capital asset activity	-	(5,113)	4,561	(210)	(762)
Net purchases / sales of investments held by bond trustee	-	(27,633)	-	122	(27,511)
Principal paid on capital debt and leases	-	(88,593)	(5,010)	(6,383)	(99,986)
Interest paid on capital debt and leases	-	(28,541)	(1,406)	(2,191)	(32,138)
Net cash provided by (used by) capital financing activities	**-**	**206,376**	**(19,582)**	**(14,856)**	**171,938**
Cash flows from investing activities:					
Proceeds from sales and maturities of investments	-	815,291	9,548	35,030	859,869
Purchases of investments	-	(811,059)	(15,164)	(39,817)	(866,040)
Investment earnings	10,084	9,607	7,162	8,018	34,871
Net cash provided by (used by) investing activities	**10,084**	**13,839**	**1,546**	**3,231**	**28,700**
Net increase (decrease) in cash and cash equivalents	**(2,655)**	**378,031**	**5,197**	**(322)**	**380,251**
Cash and cash equivalents at the beginning of the fiscal year	2,655	341,674	109,794	68,539	522,662
Cash and cash equivalents at the end of the fiscal year	**$ -**	**$ 719,705**	**$ 114,991**	**$ 68,217**	**$ 902,913**
Reconciliation of operating revenues net income (loss) cash provided (used) by operating activities					
Operating loss	$ (168,212)	$ (342,962)	$ (190,633)	$ (235,802)	$ (937,609)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:					
Depreciation expense	-	101,465	18,295	19,985	139,745
Fringe benefits paid by the Commonwealth	-	-	31,865	43,696	75,561
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets	(179,178)	(49,472)	(3,126)	349	(231,427)
Accounts payable, accrued liabilities and benefits	(39,199)	34,224	(9,339)	(9,257)	(23,571)
Student deposits and other unearned and deferred revenues	5,647	(1,109)	4,500	1,515	10,553
Other noncurrent assets - restricted and liabilities	368,203	(10,943)	5,128	830	363,218
Net cash provided by (used by) operating activities	**$ (12,739)**	**$ (268,797)**	**$ (143,310)**	**$ (178,684)**	**$ (603,530)**

Non-cash investing, capital and financing activities:

The University System had immaterial non-cash activities. The State and Community Colleges had $ 96,950,000 of non-cash activities in the form of completed capital projects from the Commonwealth at net book value and non-cash asset acquisitions.

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND FINANCIAL STATEMENTS

Boston Pops

Photograph by Walter H. Scott. Courtesy of the Boston Pops Orchestra.

This summer the images of Norman Rockwell's ***Four Freedoms*** were set to music by the Boston Pops. The orchestra, led by conductor Keith Lockhart, performed a revival of Robert Russell Bennett's *The Four Freedoms Symphony*, a 1943 composition originally presented at Carnegie Hall in New York City.

Statement of Net Assets

Fiduciary Funds

June 30, 2004

(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Agency Funds	Total
ASSETS					
Cash and short-term investments	$ -	$ -	$ 5,834	$ 302,539	$ 308,373
Assets held in trust for pension benefits:					
Cash and short-term investments	1,896,724	89,723	-	-	1,986,447
Investments at fair value	29,797,126	1,417,753	-	-	31,214,879
Assets held in trust for pool participants:					
Cash and short-term investments	-	2,005,013	-	-	2,005,013
Annuity contracts	-	-	-	1,433,077	1,433,077
Assets held in trust	-	-	-	3,043,993	3,043,993
Receivables, net of allowance for uncollectibles:					
Taxes	-	-	-	980	980
Other receivables	846,574	38,871	-	104,900	990,345
Other assets	2,155	102	-	-	2,257
Total assets	**32,542,579**	**3,551,462**	**5,834**	**4,885,489**	**40,985,364**
LIABILITIES					
Accounts payable	1,314,101	62,769	-	25,482	1,402,352
Accrued payroll	-	821	-	-	821
Due to cities and towns	-	-	-	35,828	35,828
Due to federal government	-	-	-	5	5
Prizes payable	-	-	-	1,433,077	1,433,077
Agency liabilities	-	-	-	3,391,097	3,391,097
Total liabilities	**1,314,101**	**63,590**	**-**	**4,885,489**	**6,263,180**
Net assets:					
Restricted for employees' pension benefits	31,228,478	-	-	-	31,228,478
Restricted for external investment trust fund particip	-	3,487,872	-	-	3,487,872
Restricted for nonexpendable trusts	-	-	5,834	-	5,834
Total net assets	**$ 31,228,478**	**$ 3,487,872**	**$ 5,834**	**$ -**	**$ 34,722,184**

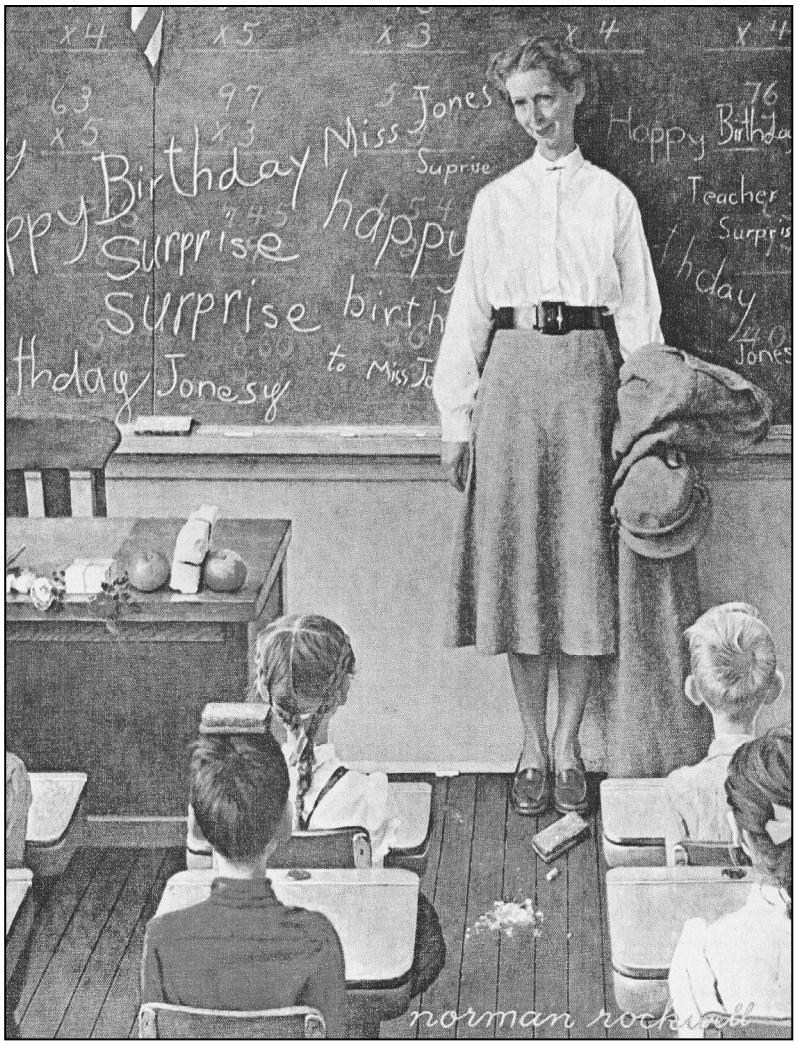
The notes to the financial statements are an integral part of this statement.

Statement of Changes in Net Assets

Fiduciary Funds
Fiscal Year Ended June 30, 2004
(Amounts in thousands)

	Pension Trust Funds	External Investment Trust Funds	Private Purpose Funds	Total
Additions:				
Contribution:				
Employer contributions	$ 687,335	$ -	$ -	$ 687,335
Employee contributions	882,741	-	-	882,741
Proceeds from sale of units	-	8,908,347	-	8,908,347
Units issued - reinvestment of distributions	-	13,081	-	13,081
Total contributions	**1,570,076**	**8,921,428**	**-**	**10,491,504**
Net investment income :				
Net appreciation in fair value	4,276,991	179,989	-	4,456,980
Interest	356,339	34,043	-	390,382
Dividends	348,352	14,660	-	363,012
Real estate operating income, net	166,116	6,990	-	173,106
Alternative investments	14,064	592	-	14,656
Other	9,240	389	-	9,629
Total investment income	**5,171,102**	**236,663**	**-**	**5,407,765**
Less: investment expense	76,432	5,122	-	81,554
Net investment income	**5,094,670**	**231,541**	**-**	**5,326,211**
Total additions	**6,664,746**	**9,152,969**	**-**	**15,817,715**
Deductions:				
Administration	14,579	-	-	14,579
Retirement benefits and refunds	2,309,785	84,627	-	2,394,412
Cost of units redeemed	-	8,870,346	-	8,870,346
Distribution to unit holders	-	17,141	-	17,141
Total deductions	**2,324,364**	**8,972,114**	**-**	**11,296,478**
Net increase	**4,340,382**	**180,855**	**-**	**4,521,237**
Net assets - beginning	26,888,096	3,307,017	5,834	30,200,947
Net assets - ending	**$ 31,228,478**	**$ 3,487,872**	**$ 5,834**	**$ 34,722,184**

The notes to the financial statements are an integral part of this statement.



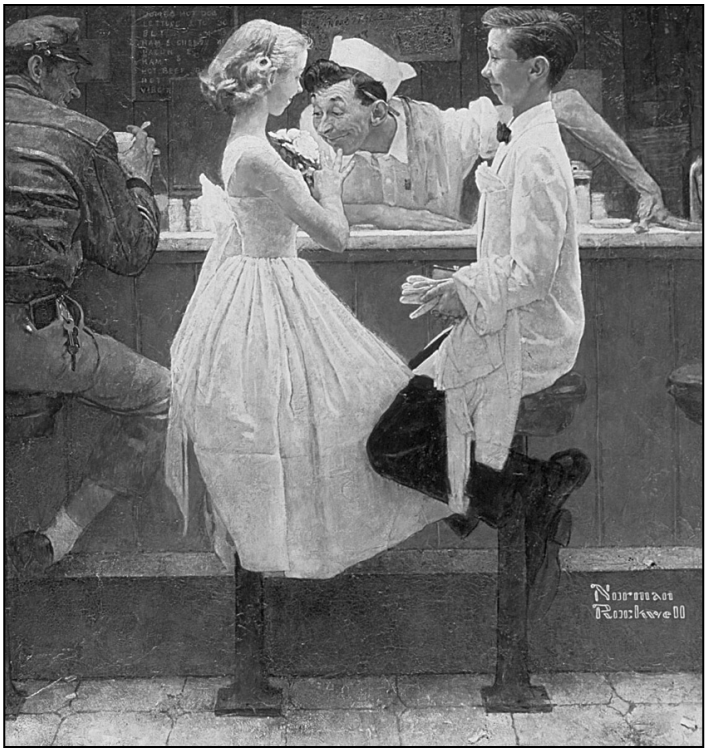
Happy Birthday Miss Jones

Saturday Evening Post cover, March 17, 1956 ©1956 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Although Rockwell often focused on the ordinary episodes of life, which he invested with a sense of heightened significance, he often avoided specifying places or times in his pictures, and he downplayed the economic and class identity of his characters.

Of Miss Jones, Rockwell said, "I painted this cover as a sort of tribute to school-teachers — in particular, my favorite teacher, Miss Julia Smith, who taught me all the history, arithmetic, grammar and geography I know and encouraged me to draw; at Christmastime, Santa Claus and his reindeer in colored chalks on the blackboard; in geography class, Arabs, and Indians, in history, covered wagons and Puritans . . . I made a sketch while painting the cover, because I had lost track of what I wanted to express in the portrait of the school teacher — the selfless devotion of teachers, willing to work long hours for their students. A quick sketch sometimes helps me to regain the freshness and vitality of my original inspiration."

Discretely Presented Component Unit Financial Statements



After the Prom

Saturday Evening Post cover, May 25, 1957 ©1957 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Rockwell called this illustration "his chinless" picture. He commented, "If you notice, not one of the characters in it possesses a normal chin — all weak as polliwogs. I even concealed the chin on the man on the left behind his shoulder. I don't know why. How much more delightful the cover would have been if I had painted the models as they really were — a sweet pretty young girl, a good-looking boy. I had intended to paint a warm, pleasant picture — a young girl after her first prom. But then I was overcome by an irresistible impulse to caricature."

Statement of Net Assets

Component Units
June 30, 2004
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 146,423	$ 2	$ 252,615	$ 242,726	$ 641,766
Short-term investments	-	81,165	199,093	168,521	448,779
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable	19,243	-	15,243	20,214	54,700
Loans	-	-	128,222	17,295	145,517
Other receivables	17,771	23,760	60,305	41,012	142,848
Due from cities and towns	-	-	-	20,052	20,052
Due from primary government	98,168	4,088	15,650	100,769	218,675
Inventory	33,768	-	-	22,499	56,267
Other current assets	4,765	4,987	-	13,016	22,768
Total current assets	**320,138**	**114,002**	**671,128**	**646,104**	**1,751,372**
Noncurrent assets:					
Cash and cash equivalents - restricted	1,004,915	-	-	164,883	1,169,798
Long - term investments	-	126,114	990,053	108,672	1,224,839
Restricted investments	-	626,140	-	175,856	801,996
Accounts receivables, net	-	30,671	-	13,116	43,787
Loans receivables, net	-	-	2,181,641	240,108	2,421,749
Due from primary government	-	-	-	333,228	333,228
Capital assets, net of accumulated depreciation	7,115,024	2,431,029	-	1,519,350	11,065,403
Other noncurrent assets	19,052	10,906	4,451	37,068	71,477
Total noncurrent assets	**8,138,991**	**3,224,860**	**3,176,145**	**2,592,281**	**17,132,277**
Total assets	**8,459,129**	**3,338,862**	**3,847,273**	**3,238,385**	**18,883,649**
Liabilities					
Current liabilities:					
Accounts payable and other liabilities	224,625	36,002	24,917	138,546	424,090
Accrued payroll	7,162	1,196	-	1,344	9,702
Compensated absences	14,363	2,918	-	1,268	18,549
Accrued interest payable	80,119	60,554	48,810	13,798	203,281
Due to primary government	-	-	-	29,461	29,461
Deferred revenue	-	-	-	18,090	18,090
Capital leases	10,867	-	-	729	11,596
Bonds, notes payable and other obligations - current	106,735	39,935	99,260	141,870	387,800
Total current liabilities	**443,871**	**140,605**	**172,987**	**345,106**	**1,102,569**
Noncurrent liabilities:					
Compensated absences	-	5,773	-	167	5,940
Accrued interest payable	-	45,383	1,395	7,126	53,904
Deferred revenue	20,375	37,860	-	39,381	97,616
Capital leases	527,231	-	-	1,530	528,761
Bonds, notes payable and other obligations	4,260,083	2,370,382	2,210,839	1,182,928	10,024,232
Other noncurrent liabilities	14,002	66,207	122,785	31,242	234,236
Total noncurrent liabilities	**4,821,691**	**2,525,605**	**2,335,019**	**1,262,374**	**10,944,689**
Total liabilities	**5,265,562**	**2,666,210**	**2,508,006**	**1,607,480**	**12,047,258**
Net Assets					
Invested in capital assets, net of related debt	3,062,161	327,530	1,118,461	1,077,940	5,586,092
Restricted for:					
Debt service	-	-	-	6,753	6,753
Capital projects	-	-	-	3,397	3,397
Other purposes	31,651	87,592	-	327,658	446,901
Unrestricted	99,755	257,530	220,806	215,157	793,248
Total net assets	**$ 3,193,567**	**$ 672,652**	**$ 1,339,267**	**$ 1,630,905**	**$ 6,836,391**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets

Component Units

Fiscal Year Ending June 30, 2004

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Massachusetts Water Pollution Abatement Trust	Nonmajor Component Units	Total
Operating revenues and expenses:					
Charges for services	$ 295,496	$ 262,158	$ 2,040	$ 187,765	$ 747,459
Other	49,440	25,228	-	74,726	149,394
Total operating revenues	**344,936**	**287,386**	**2,040**	**262,491**	**896,853**
Operating expenses:					
Cost of services	478,758	134,936	30,816	255,219	899,729
Administration costs	418,401	18,061	3,466	87,182	527,110
Depreciation	240,241	73,632	-	49,177	363,050
Total operating expenses	**1,137,400**	**226,629**	**34,282**	**391,578**	**1,789,889**
Operating income (loss)	**(792,464)**	**60,757**	**(32,242)**	**(129,087)**	**(893,036)**
Nonoperating revenues (expenses):					
Operating grants	823,717	14,992	7,853	192,313	1,038,875
Interest income	7,208	21,902	152,956	18,827	200,893
Interest expense	(177,103)	(134,827)	(131,917)	(47,692)	(491,539)
Other nonoperating revenue (expense)	11,917	-	-	(21,002)	(9,085)
Nonoperating revenues (expenses), net	**665,739**	**(97,933)**	**28,892**	**142,446**	**739,144**
Income (loss) before contributions and operating transfer	**(126,725)**	**(37,176)**	**(3,350)**	**13,359**	**(153,892)**
Capital contributions	232,618	311,167	37,815	248,342	829,942
Net income (loss) for the year	**105,893**	**273,991**	**34,465**	**261,701**	**676,050**
Net assets - beginning	3,087,674	398,661	1,304,802	1,369,204	6,160,341
Net assets - ending	**$ 3,193,567**	**$ 672,652**	**$ 1,339,267**	**$ 1,630,905**	**$ 6,836,391**

The notes to the financial statements are an integral part of this statement.

Going and Coming

Saturday Evening Post cover, August 30, 1947 ©1947 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Going and Coming, published in 1947, captures a common family event in America's postwar years. This humorous story uses split images to describe the "before" and "after" of a family's summer outing. The two scenes are similar to the panels of a comic strip. This technique tells a story and invites a comparison of people, times, and action. The late 1940s and early 50s were a time of peace and prosperity after the sacrifices of World War II. Americans were ready to buy their dream homes and cars. Autos were large, gasoline was inexpensive, and people drove everywhere to see what was new. The rise of the automobile meant that the whole family could travel together — even with the family pet!

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America, (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below. Except where noted, all numbers in the footnote tables and other sections of this Comprehensive Annual Financial Report are in thousands.

A. Reporting Entity

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties in recent years.

For financial reporting purposes, the Commonwealth has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 35 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Component Units and Details of Departments and Entities that are Separately Audited

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth but are so related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net assets and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

- **The Pension Reserves Investment Trust Fund (PRIT)** is the investment portfolio for the pension net assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions related to municipal holdings of PRIT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets.

- **The Health Care Security Trust Account (HCST)** is the long - term investment account of the Health Care Security Trust, a minor governmental fund. The Health Care Security Trust was the ultimate

recipient of tobacco settlement remittances to the Commonwealth from fiscal year (FY) 99 through FY02. The HCST is managed by a board of trustees, which supervises the investment and reinvestment of monies received into the HCST. The HCST utilizes certain resources and staff of PRIT or PRIM. In FY04, certain Medicaid related revenues were also managed by the HCST.

- **The Massachusetts Municipal Depository Trust (MMDT)** is an investment pool of the Commonwealth and its political subdivisions. Portions of MMDT are reported as an external investment trust within the fiduciary statement of net assets and statement of changes in net assets. MMDT is established by the Treasurer – Receiver General, who serves as trustee.

The following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

- **The Massachusetts State Lottery Commission,** a division of the Office of the State Treasurer and Receiver – General, operates the Commonwealth's lottery. The net assets of the Commission and results of operations are presented as part of the Commonwealth's governmental activities.

- **The Commonwealth of Massachusetts Owner Controlled Worker's Compensation and General Liability Insurance Program (OCIP)** provides worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery / Tunnel Project (CA / T). The OCIP is managed by the Massachusetts Highway Department.

The institutions of higher education of the Commonwealth have operations and net assets that are presented as part of the Commonwealth's business – type activities. These systems include:

- **The University of Massachusetts System** including its discretely presented component units, the University of Massachusetts Building Authority, the University of Massachusetts Foundation, Inc., and the Worcester City Campus Corporation (doing business as Umass Health System.) The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc. Finally, the University System includes the University of Massachusetts Dartmouth Foundation, Inc.

- **The State and Community College System** including the 9 State and 15 Community Colleges located throughout the Commonwealth and the Massachusetts State College Building Authority (a blended component unit). The following are Community Colleges:

    - Berkshire Community College
    - Bunker Hill Community College
    - Bristol Community College
    - Cape Cod Community College
    - Greenfield Community College
    - Holyoke Community College
    - Massasoit Community College
    - Massachusetts Bay Community College
    - Middlesex Community College
    - Mount Wachusett Community College

- Northern Essex Community College
- North Shore Community College
- Quinsigamond Community College
- Roxbury Community College
- Springfield Technical Community College

The following are State Colleges:

- Bridgewater State College
- Fitchburg State College
- Framingham State College
- Massachusetts College of Art
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State College
- Westfield State College
- Worcester State College

Implementation of GASB Statement 39

In FY04, the Commonwealth implemented GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an amendment of GASB Statement No. 14, which provides additional guidance for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government and to clarify reporting requirements for those organizations. As a result, in addition to the aforementioned University of Massachusetts System component units are the following State and Community College System foundations, all of which are legally separate, tax-exempt, separately audited, component units of the various colleges. These entities resources can only be used by or are for the benefit of the various colleges to which they serve. All are presented within the various college financial statements because of the nature and significance of these entities to those colleges. Complete financial statements may be obtained at their various offices.

Community College Component Units:

- Berkshire Community College Foundation
- Bristol Community College Foundation
- Bunker Hill Community College Foundation
- Cape Cod Community College Educational Foundation, Inc.
- Greenfield Community College Foundation, Inc.
- Holyoke Community College Foundation
- Massasoit Community College Foundation
- Massachusetts Bay Community College Foundation, Inc.
- Middlesex Community College Foundation, Inc.
- The Mount Wachusett Community College Foundation, Inc.
- The Northern Essex Community College Foundation, Inc.
- North Shore Community College Foundation
- The Quinsigamond Community College Foundation, Inc.
- The Roxbury Community College Foundation, Inc.
- Springfield Technical Community College Foundation

State College Component Units:

- Bridgewater State College Component Units:
  - The Bridgewater State College Foundation
  - The Bridgewater Alumni Association of Bridgewater State College
- Fitchburg State College Foundation, Inc.
- Framingham State College Foundation, Inc.
- Massachusetts College of Art Foundation, Inc.
- Massachusetts College of Liberal Arts Foundation, Inc.
- The Massachusetts Maritime Academy Foundation, Inc.
- Salem State College Component Units:
  - The Salem State College Foundation, Inc.
  - Salem State College Assistance Corporation
- Westfield State College Foundation, Inc.
- Worcester State Foundation

None of these foundations are considered major component units of the Commonwealth under the definitions put forth under GASB Statement 34, but are blended within their various systems.

Other Discretely Presented Component Units that are Separately Audited – Discrete component units are entities which are legally separate (often called Authorities) are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

Major Component Units:

- **The Massachusetts Bay Transportation Authority (MBTA)** provides mass transit facilities within the Greater Boston metropolitan area, comprising 175 cities and towns.
- **The Massachusetts Turnpike Authority (MTA)** operates the Massachusetts Turnpike and the Boston Harbor Tunnel crossings that are part of the Metropolitan Highway System.
- **The Massachusetts Water Pollution Abatement Trust (MWPAT)** provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

Minor Component Units

- **The Massachusetts Convention Center Authority (MCCA)**
- **The Massachusetts Development Finance Agency (MassDevelopment)**
- **The Massachusetts Technology Park Corporation (MTPC)**
- **The Massachusetts Community Development Finance Corporation (MCDFC)**
- **Commonwealth Corporation**
- **The Massachusetts International Trade Council, Inc. (MITC)**
- **The Community Economic Development Assistance Corporation (CEDAC)**

- **The Massachusetts Housing Partnership (MHP)**
- **Route 3 North Transportation Improvements Association (R3N)**
- **The Commonwealth Zoological Corporation**
- **The Regional Transit Authorities (15 separate entities)** including:
  - Berkshire Regional Transit Authority
  - Brockton Area Transit Authority
  - Cape Ann Transit Authority
  - Cape Cod Regional Transit Authority
  - Franklin Regional Transit Authority
  - Greater Attleboro / Taunton Regional Authority
  - Greenfield-Montague Transportation Area
  - Lowell Regional Transit Authority
  - Martha's Vineyard Transit Authority
  - Merrimack Valley Regional Transit Authority
  - Montachusett Regional Transit Authority
  - Nantucket Regional Transit Authority
  - Pioneer Valley Regional Transit Authority
  - Southeastern Regional Transit Authority
  - Worcester Regional Transit Authority

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *"The Financial Reporting Entity" as amended by Statement 39*: Massachusetts Port Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority and Massachusetts Technology Development Corporation. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

Availability of Financial Statements

The Commonwealth's component units, departments and funds that are separately audited issue their own financial statements. These statements may be obtained by directly contacting the various entities. To obtain their phone numbers, you may contact the Office of the State Comptroller, Financial Reporting and Analysis Bureau, at (617) 973-2660.

B. Government – Wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all non-fiduciary activities of the primary government (the Commonwealth), and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non- exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Government – Wide Financial Statements

The **Statement of Net Assets** presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.

- **Unrestricted net assets** consist of net assets, which do not meet the definition of the two preceding categories.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business – type operations.

C. ***Fund Financial Statements***

The fund financial statements present a balance sheet and a statement of revenues, expenditures and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column.

D. ***Measurement Focus and Basis of Accounting***

The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Governmental Activities – Government –wide financial statements - are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds – Fund Financial Statements - account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become *susceptible to accrual;* generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other financing sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Business – Type Activities – Government – wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges. There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for – profit business. The Commonwealth's Institutions of Higher Education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund Financial Statements are presented on the same basis of accounting as the business-type activities in the government – wide financial statements.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth Finance Law to support specific governmental activities.

Debt Service Fund accounts for the accumulation of resources for and the payment of debt.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Proprietary Fund Types:

Business - Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services.

Fiduciary Fund Types:

Pension Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's pension plans.

External Investment Trust Funds account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purpose specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals. The remaining trust fund in the Massachusetts School Fund, established in 1834 a fund "for the aid and encouragement of common schools." The fund was originally capitalized from the proceeds of the 1820's sale of the public lands upon which the State of Maine was created.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Within those fund types, the Commonwealth has established the following funds:

Highway Fund, a governmental fund, accounts for user taxes including the gas taxes and fees to finance highway maintenance and safety services.

Lottery Funds, governmental funds, account for the operations of the State and Arts Lotteries, which primarily finance payments for local aid.

Debt Service Fund, a governmental fund, accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest.

Capital Projects - Central Artery Statewide Roads and Bridges Fund, a governmental fund, accounts for the construction of a portion of the Central Artery / Tunnel project financed from FY01 forward, as well as various other statewide road and bridge projects. These expenditures are financed from bond proceeds, certain revenues from Registry of Motor Vehicles fees (net of debt service expenditures) and payments from authorities.

Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

College and University Information is presented here, aggregated by the University's activity, the State Colleges activity and the Community College's activity.

Reporting Standards

As allowed by GASB statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accountin*g, the Commonwealth's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Fiscal Year Ends

All funds and discretely presented component units are reported using fiscal years, which end on June 30, except for the Massachusetts Turnpike Authority which utilizes a December 31 year end.

Program Revenue

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department's operations. A corresponding receivable is declared, if applicable.

Revenues and expenses of business type activities and proprietary funds are classified as operating or nonoperating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating.

E. ***Cash and Short-Term Investments***

The Commonwealth follows the practice of pooling the cash and cash equivalents of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and, when so directed by law, to certain Special Revenue and Capital Projects Funds.

The Pension Trust Funds, with investments of approximately $29,797,126,000 at fair value, are permitted to make investments in equity securities, fixed income securities, real estate, timber and other alternative investments. For investments traded in an active market, the fair value of the investment will be its market price. The Pension Trust Funds include investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leveraged buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentration of credit risk exists if a number of companies in which the fund has invested are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 2004, the estimated fair values, determined by management with input from the investment managers, of these real estate and alternative investments were $5,496,796,000 of the Pension Trust Funds, representing 13.4% of the total assets of the Fiduciary Fund Type.

Pension Trust Fund and External Investment Trust Fund net assets have been restricted as follows:

"Restricted for employee's pension benefits" identifies resources held in trust for the members and beneficiaries of the Commonwealth's pension plans."

"Restricted for external investment trust fund participants" identifies the portion of pooled cash and pension assets held under custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth. The Commonwealth also manages pension assets on behalf of other governments.

The Commonwealth maintains a short-term investment pool. The investments are carried at amortized cost, which approximates fair value. The primary government's and component unit's share are reported as short-term investments within their respective reporting categories. The various local governments and other political subdivisions share of net assets is approximately $2,005,013,000 and is reported as an External Investment Trust within the Fiduciary Fund Type.

Included in the discretely presented Component Units are investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial

data and on estimates by management of the companies they have invested in as to the effect of future developments.

Investments of the University of Massachusetts (UMass) are stated at fair value. Annuity contracts represent guaranteed investment contracts and are carried at present value.

F. ***Securities Lending Program***

Under the securities lending programs, PRIT receives fees for allowing its lending agents to borrow from PRIT's public market equity and fixed income securities, respectively, for a predetermined period of time. These loans are secured with collateral (U.S. Treasury securities), typically equaling 102% of the market value of the domestic securities borrowed and 105% on borrowings of international securities. Purusant to the Operations Support Agreements with PRIT's lending agents, Mellon Trust held all collateral for securities on loan at June 30, 2004. The collateral securities cannot be pledged or sold by PRIT unless the lending agent(s) default. The lending agents are required to indemnify PRIT in the event that they fail to return the securities on loan (and if the collateral is inadequate to replace the securities on loan) or if the lending agents fail to perform their obligations as stipulated in the agreements.

At June 30, 2004, the fair value of the securities on loan from PRIT was approximately $2,115,720,000. The fair value of the collateral held by PRIT amounted to $2,204,256,000 at June 30, 2004, of which $943,000,000 was cash.

G. ***Receivables***

In general, tax revenue is recognized on the government-wide statements, when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government."

Included in receivables for FY04 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement between five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 *"Tobacco Settlement Recognition and Financial Reporting Entity Issues"*, a receivable has been declared for $126.8 million, representing 50% of the amounts estimated to be received in FY05, adjusted for historical trends and included as part of a governmental fund and governmental activities within the statement of net assets.

H. ***Due From Cities and Towns***

These amounts represent reimbursement due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

I. ***Fixed Assets***

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

Methods used to value capital assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization Policies

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized, if cost is greater than $1. Singular pieces of equipment, vehicles, computer equipment and software that equal or exceed $50,000 ($1,000 for the University of Massachusetts) are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds $100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method with a full year's depreciation charged in the year of acquisition but not in the year of disposal, regardless of date. Estimated useful lives are as follows:
Central Artery / Tunnel Project Depreciation

In FY04, certain Central Artery / Tunnel Project segments were opened to traffic, but not transferred as of June 30, 2004 to the MTA or Massport. The

Type of Asset	**Estimated Useful Life (in years)**
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bikeways, etc.	25
Infrastructure - dams, water and sewer systems	50
Furniture	10
Library collections that are not historical treasures	15
Equipment, office equipment and life safety equipment	10
Computer hardware and software	3 to 7
Vehicles	5

Commonwealth is reporting these assets as Infrastructure – Central Artery / Tunnel Project and Land – Central Artery / Tunnel Project and has commenced depreciation on these assets. Because amounts are also reported as Due to Component Units – Central Artery / Tunnel Project and pursuant to provisions of Massachusetts statutes, the amount claimed on depreciation expense on the Central Artery / Tunnel Project is also an adjustment of the Due to Component Units – Central Artery / Tunnel Project to report the payable at net book value. These activities have no effect on the Commonwealth's statement of activities.

Construction in Process

Construction in process includes all associated cumulative costs of a constructed fixed asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use. For the CA / T, construction in process is relieved upon agreement between the Massachusetts Highway Department, the MTA and / or the Massachusetts Port Authority, its engineers and respective boards. The chief engineer of the Highway Deparment, or their designees, jointly determine and certify to the MTA or the Massachusetts Port Authority that the respective authorities can safely open each such facility or segment thereof to vehicular traffic or that such facility can safely be used for its intended purpose. As of June, 30 2004, approximately $1,736,873,000 of project costs has been transferred to the various authorities, including $10,252,000 of costs transferred outside of the current agreements to the Massachusetts Port Authority and $10,697,000 to the Boston Redevelopment Authority.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

J. ***Interfund/Intrafund Transactions***

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

K. ***Statewide Cost Allocation Plan – Fringe Benefit Cost Recovery***

The Commonwealth has elected not to present its cost allocation and recovery separately on the statement of activities. Certain costs of nine "central service" agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefits from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees' group health insurance and worker's compensation activity is accounted for in the governmental funds.

L. ***School Construction Grants and Contract Assistance Payable***

The Commonwealth, through legislation, is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. This amount is recorded as a long-term liability in the statement of net assets. The liability for school construction grants payable is the present value of the cash flows due to municipalities for the life of the program for existing commitments, discounted at the incremental borrowing rate of the Commonwealth, approximated by the Treasurer and Receiver – General for the fiscal year.

Subsequent to June 30, 2004, the Commonewalth passed legislation creating a separate authority to assume these liabilities. The legislation also authorizes $1 billion in bonding authority for the Commonwealth to capitalize the authority. The authority will be the recipient of dedicated sales tax revenues commencing in FY05 totaling $395,700,000 and escalating in the future. The authority will also have bonding authority of its own, to a maximum of $10 billion, to be repaid from these dedicated sales tax revenues.

The Commonwealth recognizes contract assistance due to MCCA, R3N, MWPAT and MassDevelopment as long-term liabilities on the statement of net assets. These liabilities equate to portions or the whole of certain debt service of these entities. In addition, a payable is declared to the MTA as a cash flow reimbursement for the operations and maintenance of the Central Artery / Tunnel Project.

M. ***Compensated Absences***

Compensated absences are recorded as a long-term liability in the statement of net assets. Amounts to be paid during the next fiscal year are reported as current.

For the governmental fund statements, accumulated vacation and sick leave expected to be liquidated with expendable available financial resources, defined as tax revenues earned but received during the next fiscal year, are reported as expenditures and fund liabilities.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the business type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

N. ***Long Term Obligations***

Long-term obligations consist of unmatured long term debt obligations, CA/T assets due to discretely presented component units and related organizations, school construction grants and contract assistance payable to component units and other liabilities including capital lease obligations and the net pension obligation of the Commonwealth (representing the actuarially derived pension cost in excess of actual contributions made).

O. ***Lottery Revenue and Prizes***

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in Agency Funds. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

P. ***Risk Financing***

The Commonwealth does not insure for employees workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employee's workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

Q. ***Net Assets***

The Commonwealth reports net assets as reserved where legally segregated for a specific future use. Otherwise, these balances are considered unrestricted.

Net Assets have been restricted as follows:

"Restricted for Capital Projects" – identifies amounts of unspent proceeds of capital bond issuances.

"Restricted for unemployment benefits" – identifies amounts solely for payment of unemployment compensation.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 2O of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998. Escrows related to crossoever refundings are also restricted.

"Restricted for central artery workers' compensation and general liability" – identfies amounts held to pay future workers' compensation and general liability claims through the Central Artery / Tunnel Project's owner controlled insurance program.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments. It also includes various restrictions put forth by the Commonwealth through constitutional or enabling statutes. Included in this restriction are reserves for stabilization and prior appropriations continued.

R. ***Reclassifications and Restatement***

Certain amounts in the separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth. Due to the provisions of GASB Statement No. 34 ("GASB 34") *"Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments"*, major governmental and proprietary funds presented in a previous year may not be major funds presented in the current year.

For FY04, the Commonwealth implemented Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"* amends Statement No. 14, *"The Financial Reporting Entity."* Due to the provisions of Statement 39, the beginning balance of the State Colleges System and the Community Colleges System, both proprietary funds, were restated to include activity related to their foundations, which are reflected as component units. No prior period activity is available. The University of Massachusetts has previously included their foundations as part of the reporting entity. The effect on the beginning balance for the State Colleges System was approximately $57,664,000 and the Community Colleges System was approximately $43,483,000.

S. ***New Accounting Standards***

During FY04, the Commonwealth implemented the following new accounting standards issued by the GASB:

Technical Bulletin No. 2004 – 1 *"Tobacco Settlement Recognition and Financial Reporting Entity Issues"*. This Bulleting clarifies revenue recognition and receivables disclosure with regard to the Master Settlement Agreement with the tobacco industry. The Commonwealth recorded revenue and a receivable for approximately $126,766,000.

Statement No. 39 *"Determining Whether Certain Organizations Are Component Units"* amends Statement No. 14, *"The Financial Reporting Entity."*

For FY05, the Commonwealth will be implementing the following:

Statement No. 40 *"Deposit and Investment Risk Disclosures,"* amends Statement No. 3 *"Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements"*.

For FY06, the Commonwealth will be implementing the following:

Statement No. 42 *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*.

Statement No. 44 *"Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1"*. As of the date of the opinion, the Commonwealth has not evaluated the financial impact of GASB Statements 40 or 42. Statement 44 has no financial impact.

2. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions. Alternatively, the Governor may propose specific additional revenues to equal the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure such deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The following table summarizes budgetary activity for FY04 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 26 of the Acts of 2003:		
Direct appropriations……	$ 20,811,293	$ 20,685,549
Estimated revenues, transfers, direct appropriations retained revenue appropriations, interagency chargebacks and appropriations carried forward from FY2003 ……	1,192,798	1,192,798
Total original budget……	22,004,092	21,878,347
Supplemental Acts of 2003:		
Chapter 101……	-	1,619
Chapter 118……	-	22,161
Chapter 140……	-	110,393
Chapter 141……	-	20,750
Supplemental Acts of 2004:		
Chapter 40……	-	52,188
Chapter 65……	-	64,076
Chapter 304……	-	11,529
Total before June 30, 2004 ……	22,004,092	22,161,063
Supplemental Acts of 2004, passed after June 30, but for FY04:		
Chapter 352 ……	-	389,133
Total budgeted revenues and expenditures per legislative action ……	22,004,092	22,550,196
Plus: transfers of revenues and expenditures (including rounding)……	511,643	1,905,490
Budgeted revenues and expenditures as reported…….	$ 22,515,735	$ 24,455,686

The Commonwealth's FY04 Statutory Basis Financial Report (SBFR) demonstrates budgetary compliance on a statutory basis. This report is separately available at http://www.mass.gov/osc/reports/reports.htm.

3. DEPOSITS AND INVESTMENTS

Primary Government -

As of June 30, 2004, the carrying amount of the Primary Government's total cash and cash equivalents was approximately $6,286,069,000 and the corresponding bank balance was approximately $6,408,518,000. Bank deposits in the amount of approximately $174,958,000 were insured by the Federal Deposit Insurance Corporation. Deposits of approximately $6,408,343,000 were uninsured and uncollateralized.

Component Units -

As of June 30, 2004, the carrying amount of the discretely presented component units' total cash and cash equivalents was approximately $1,046,802,000 and the corresponding bank balances were approximately $877,578,000. Bank deposits of approximately $155,521,000 were insured by the Federal Deposit Insurance Corporation, approximately $37,135,000 were collateralized in the name of the respective component units, and approximately $684,922,000 were uninsured and uncollateralized.

Investments – The investments are reported at fair value in the financial statements. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT. Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, bankers' acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements secured by any of these obligations. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments.

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Primary Government – Investments of the Government at June 30, 2004, were as follows (amounts in thousands):

Investment	CATEGORY 1	CATEGORY 2	CATEGORY 3	Total
Repurchase agreements	$ -	$ -	$ 158,758	$ 158,758
Government obligations	3,024,201	148,212	-	3,172,413
Commercial paper	3,998,002	-	-	3,998,002
Equity securities	16,965,785	1,410	11,397	16,978,592
Fixed income securities	5,081,206	6,081	12,657	5,099,944
Other	19,328	3,707	2,222	25,257
	$ 29,088,522	$ 159,410	$ 185,034	29,432,966
Money market investments				2,747,238
Mutual fund investments and annuity contracts				1,519,242
Real estate				2,790,627
Assets held in trust				3,043,993
Certificates of deposit				859,225
Other, including carrying amount of cash and cash equivalents				6,134,301
Total cash and investments				$ 46,527,592

A. Financial Investments with Off-Balance Sheet Risk

Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such "off-balance sheet risks" is as follows.

Foreign Currency Exchange Contracts

Within the Pension Trust Funds, PRIT enters into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates.

The contract is marked-to-market daily and the change in market value is recorded by the fund as an unrealized gain or loss by the Pension Trust Fund.

When the contract is closed, the Pension Trust Funds record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. The maximum potential loss from such contract is the aggregate face value in U.S. dollars at the time the contract was opened.

As of June 30, 2004, PRIT had open foreign exchange contracts with combined net unrealized losses of $7,348,000 with various delivery dates to November 2004.

Futures Contracts

Within the Pension Trust Funds, PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to the minimum "initial margin" requirements of the futures.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its futures positions due to a nonliquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Pension Trust Funds may also invest in financial futures contracts for nonhedging purposes.

Payments are made or received by the Pension Trust Funds each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Pension Trust Funds recognize a gain or loss.

As of June 30, 2004, outstanding futures contracts held by PRIT had an aggregate unrealized appreciation of $15,345,000 with expiration dates ranging to December 2005.

Forward Purchase Agreement

During FY02, the Commonwealth entered into a forward purchase agreement with two investment providers to receive investment earnings on grant draws for the payment of the Commonwealth's Grant Anticipation Notes (GANs) principal and interest for the period from June 19, 2002 to July 15, 2014 for note payments approximately six to eleven months after these grant draws. The agreements may only be terminated in the event of a defeasance or refunding of the GANs by the Commonwealth. Should termination occur, the Commonwealth may be liable for a termination amount to be agreed upon between the Commonwealth and the providers at the termination date.

Options

PRIT is also engaged in selling or "writing" options. The Pension Trust Funds, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bear the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 2004, there were no material options outstanding.

Swap Agreements at PRIT and HST

During FY04, PRIT's Core Realty Holdings LLC (a limited liability company inclusive of PRIT and HST – "LLC,") entered into eight interest rate swap contracts for the purpose of hedging its floating – rate interest exposure. PRIT holds 99.43% of the LLC while HST holds the remaining 0.57%. The swap contracts are reported at fair value, which represents their estimated liquidation values (costs) to the LLC. The LLC either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable – rate interest. Changes in the fair value of the swap contracts are included in net change in unrealized appreciation on investments and foreign currency transactions, and the income or expense related to settlements of interest under the contracts are included in real estate income, net in PRIT and HST's financial statements.

As of June 30, 2004, the LLC had the following swap contracts in effect (amounts in thousands):

Counterparty	Fixed Rate Paid	Notional Amount	Effective Date	Maturity Date	Fair-Value
Fleet National Bank	4.82%	$ 50,000,000	07/23/02	07/01/12	$ (1,254,090)
Citibank, N. A. New York	4.32%	50,000,000	08/05/02	08/01/06	(937,978)
Bear Stearns Bank PLC	3.95%	50,000,000	08/19/02	09/01/07	(947,773)
Fleet National Bank	4.18%	50,000,000	12/02/02	12/03/12	1,202,068
Citibank, N. A. New York	3.68%	50,000,000	01/01/03	01/01/10	896,039
Mellon Bank	3.17%	50,000,000	01/30/03	02/01/08	578,970
Mellon Bank	3.82%	50,000,000	03/06/03	06/01/13	2,813,756
Bear Stearns Bank PLC	3.45%	50,000,000	05/13/03	06/01/11	2,626,932
Citibank, N. A. New York	3.54%	50,000,000	08/21/03	09/01/08	287,507
Fleet National Bank	4.34%	50,000,000	09/22/03	12/01/13	1,138,128
Citibank, N. A. New York	4.11%	50,000,000	10/27/03	12/01/11	870,400
Bear Stearns Bank PLC	3.37%	50,000,000	11/24/03	03/01/09	1,013,917
Fleet National Bank	4.32%	50,000,000	12/17/03	06/01/14	1,470,340
Citibank, N. A. New York	3.98%	50,000,000	04/23/04	06/01/10	374,807
Bear Stearns Bank PLC	5.01%	50,000,000	05/21/04	12/01/14	(1,223,693)
Mellon Bank	4.49%	50,000,000	06/21/04	12/01/10	(710,605)
		$ 800,000,000			$ 8,198,725

To determine the fair values of its swap agreements, the LLC uses methods and assumptions considering market conditions and risks existing at the date of PRIT's financial statements. Such methods and assumptions incorporate standard valuation conventions and techniques such as discounted cash flow analysis and option pricing models. All methods utilized to estimate fair values result in only general approximations of value, and such values may or may not actually be realized. Fair value estimates are closely correlated with changes in market interest rates and the passage of time. For example, rising market interest rates will generally increase the swaps' termination values to the LLC, whereas termination values are generally reduced as the swaps approach their maturity dates and fewer interest settlements remain under the contracts. As of June 30, 2004, neither the LLC, nor its counterparties expressed intentions to terminate its swap agreements prior to their scheduled maturity dates.

B. Discretely Presented Component Unit Investments

Investments of the discretely presented component units at June 30, 2004 are as follows (amounts in thousands):

Investment	Category 1	Category 2	Category 3	Total
Repurchase agreements	$ -	$ 444,380	$ 2,632	$ 447,012
U.S. Treasury obligations	17,269	-	-	17,269
Commercial paper	66,284	-	-	66,284
Government obligations	660,990	117,835	2,100	780,925
Equity securities	17,114	161,060	-	178,174
Fixed income securities	47,782	97,531	-	145,313
	$ 809,439	$ 820,806	$ 4,732	1,634,977
Money market investments				62,152
Mutual fund investments				311,998
Guaranteed investment contracts				1,190,080
Negotiable certificate of deposits				23,256
Other, including carrying amount of cash and cash equivalents				1,064,715
Total cash and investments				$ 4,287,178

Component Unit Swap Agreement Investments

In FY99, the MTA entered into an interest rate swap option agreement with Morgan Guaranty Trust Company of New York (MGTC). This "Swaption" agreement runs through July 1, 2029 and carries a notional amount of $100 million. The MTA received a premium payment in FY00 of $5.4 million as part of the agreement. This premium was recorded by the MBTA as a deferred credit and is being recongnized as an adjustment of interest expense over the 30-year life of the agreement. MGTC had the right, but not the obligation, to exercise the swap option on January 1, April 1, July 1 and October 1 of any year from July 1, 2002 to July 1, 2029. MGTC had the right to enter the MTA into the swap when the average Bond Market Association Municipal Swap Index (BMA) / London Interbank Offered Rate (LIBOR) ratio exceeds 72% over 12 consecutive months beginning April 1, 2002. The MTA's payment obligation would be equal to the difference between the BMA and 67% of LIBOR, multiplied by the $100 million. Conversely, the Authority may receive payments under this agreement when 67% of LIBOR exceeds the BMA. MGTC exercised its option on October 1, 2002. The MTA received $194,000 of interest in January 2004. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

The MBTA has also entered into various agreements in order to provide the MBTA with a stable and predictable cost of fuel. These agreements create a synthetic fixed rate for the purchase of fuel for fixed periods of time rather than being exposed to unpredictable variations of fuel prices on the spot market. Prices are sourced through PLATT's Oilgram Price Report. The hedge agreements are summarized as follows (amount in thousands):

Commodity Type	Price Per Gallon	Initial Notional Amount *Gallons*	Trade Date	Termination Date	Counterparty (ratings - Moody's / S&P)
Bus Fuel - Jet Fuel.....	$0.7925	3,945	9/12/2003	6/30/2004	Aal / AA
Rail Fuel - Heating Oil.....	$0.7500	6,318	9/12/2003	6/30/2004	Aal / AA

The MBTA is exposed to basis risk on its fuel swaps, where the fuel price index used on the swaps may not fully offset the actual cost of the MBTA's fuel purchases.

The MBTA also has an "asset-side" swaption for a reserve investment. This swaption was executed in FY01 and has a notional amount of $49,123,000. The MBTA received a lump – sum payment on the swaption of $1,265,000 in FY02. The counterparty may execute its option annually on January 1 and July 1 from 2010 through 2030. The agreement has a fixed payable rate of 5.6% and a variable receivable rate at BMA. The counterparty has a Aa2 / Aa+ credit rating as of June 30, 2004. The agreement's fair value as of June 30, 2004 was ($2,194,000).

In FY01, the MTA entered into five interest rate swap options with UBS AG, the Parent Company of UBSPaine Webber (UBS). These swaptions grant UBS the right to enter a swap with the MTA in which UBS would pay a floating rate and receive a fixed rate from the MTA. The swaption exercise dates and fixed rates due from the MTA are designed to match the call provisions and rates of certain of the MTA's bonds. If UBS exercises its option, the MTA expects to

refund certain of its fixed rate bonds with floating rate bonds. The floating rate received by the MBTA under the swap would provide a hedge for the floating rate due on its refunding bonds. In turn, the MTA's payments to UBS would match the payments expected to be made to fixed rate bondholders. UBS paid $6.2 million on behalf of the MTA during FY01 to purchase insurance for the payments that the MTA may be required to make under the swaps, if exercised. This amount was recorded in the MTA's financial statements as prepaid insurance and is amortized over the life of the swap, which is 35 years.

As of December 31, 2003 the Authority had recorded a long-term receivable of $16.4 million related to the swaption. A corresponding deferred credit totaling $27.5 million was recorded during FY04 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The balance at December 31, 2002 was $28.3 million. The MTA may be exposed to certain risks related to this transaction should the counterparty default.

In FY03, the MTA entered into five interest rate swap option agreements with Lehman Brothers Special Financing Inc. (Lehman). These Swaptions grant Lehman the right to enter a swap with the MTA in which Lehman would pay the MTA a fixed rate of 5% and the MTA would pay Lehman a floating rate of BMA. As a fixed – to – floating swap, the transaction was designed to "offset" the FY01 UBS swaption and, as a result, has the effect of mitigating certain risks inherent in that transaction if both are executed. Lehman paid $6.4 million to the MTA during FY03 and will pay an additional $28.8 million in subsequent years. This amount was recorded in the MTA's financial statements as a deferred credit and will be amortized over the life of the swap, which is 35 years.

A corresponding deferred credit totaling $35.2 million was recorded during FY03 related to this transaction. This amount is being amortized over the life of the swap, which is 35 years. The MTA may be exposed to certain risks related to this transaction should the counterparty default. The unamortized balance as of December 31, 2003 is $34.2 million.

In order to mitigate potential future market risks associated with the UBS and Lehman swaption agreements, the MTA set aside $12.5 million in cash and investments in FY02.

Receivable amounts recorded by the MTA under these agreements are as follows (amount in thousands):

Due January 1,	UBS Amounts	Lehman Amounts
2004	$ 3,281	$ 5,849
2005	3,281	5,849
2006	3,281	5,849
2007	3,281	5,849
2008	3,281	-
	16,405	23,396
Less: Current Portion	(3,281)	(5,849)
	$ 13,124	$ 17,547

4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net assets as follows (amounts in thousands):

Primary Government	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Governmental receivables	$ 2,402,981	$ 1,598,341	$ -	$ 1,435,044	$ 5,436,366
Business-type activity receivables	-	43,864	61,497	775,031	880,392
Less: allowance for uncollectibles	(284,643)	(5,683)	(6,324)	(1,279,415)	(1,576,065)
Receivables, net of allowance for uncollectibles	2,118,338	1,636,522	55,173	930,660	4,740,693
Less: current portion:					
Governmental activities	(2,118,338)	(1,592,658)	-	(348,302)	(4,059,298)
Business-type activities	-	(43,864)	(39,170)	(550,204)	(633,238)
Noncurrent receivables	$ -	$ -	$ 16,003	$ 32,154	$ 48,157

Discretely Presented Component Units	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
Massachusetts Bay Transportation Authority	$ -	$ 19,243	$ -	$ 17,771	$ 37,014
Massachusetts Turnpike Authority	-	-	-	55,244	55,244
Massachusetts Water Pollution Abatement Trust	-	15,243	2,309,863	60,305	2,385,411
Nonmajor component units	-	20,214	269,947	56,550	346,711
Less: allowance for uncollectibles	-	-	(12,544)	(3,235)	(15,779)
Receivables, net of allowance for uncollectibles	-	54,700	2,567,266	186,635	2,808,601
Less: current portion	-	(54,700)	(145,517)	(142,848)	(343,065)
Noncurrent receivables	$ -	$ -	$ 2,421,749	$ 43,787	$ 2,465,536

5. RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

Activity between funds reflected as due to / from primary government in the combined balance sheet and various transfers in the combined statement of revenues, expenditures and changes in fund balance as of June 30, 2004 are summarized as follows (amounts in thousands):

	Transfers to Other Funds						
Governmental Funds			Debt		Central Artery Statewide	Other Governmental	Total Governmental
Transfers from Other Funds:	General	Highway	Service*	Lotteries	Roads and Bridges	Funds	Funds
General	$ -	$ 200	$ -	$ -	$ -	$ 581,753	**$ 581,953**
Highway	45,181	-	-	-	73,808	6,172	**125,161**
Lotteries	985,236	-	-	-	-	-	**985,236**
Debt Service*	759,026	733,207	-	-	-	15,301	**1,507,534**
Central Artery Statewide Roads and Bridges	-	-	-	-	-	89	**89**
Other governmental funds	783,787	68,798	-	-	-	1,414,873	**2,267,458**
Total Governmental Funds	2,573,230	802,205	-	-	73,808	2,018,188	**5,467,431**
University of Massachusetts	37,457	-	-	-	-	-	**37,457**
State Colleges	11,226	-	-	-	-	-	**11,226**
Community Colleges	14,550	-	-	-	-	-	**14,550**
Total Transfers	**$ 2,636,463**	**$ 802,205**	**$ -**	**$ -**	**$ 73,808**	**$ 2,018,188**	**$ 5,530,664**

*Transfers for debt service are net of amounts funded in escrows for crossover refunding debt.

The following is a summary of receivables and payables between funds remaining as of June 30, 2004 (amounts in thousands):

	Due From Other Funds					
Due to Other Funds:	General	Highway	Lotteries	Central Artery Statewide Roads and Bridges	Other Governmental Funds	Total Governmental Funds
General……	$ -	$ -	$ -	$ 691,992	$ 100,882	**$ 792,874**
Highway……	710,594	-	-	-	-	**710,594**
Other governmental funds……	756,525	47	-	-	378,298	**1,134,870**
Total Governmental Funds……	1,467,119	47	-	691,992	479,180	**2,638,338**
University of Massachusetts……	9,959	-	-	-	-	**9,959**
Total amounts due……	**$ 1,477,078**	**$ 47**	**$ -**	**$ 691,992**	**$ 479,180**	**$ 2,648,297**

Central Artery / Tunnel Project

The Commonwealth is currently engaged in the most expensive public construction project in the history of the United States, the Central Artery / Tunnel Project (CA/T or Project). The project will depress the Central Artery (Interstate 93) through downtown Boston and connect the Massachusetts Turnpike (Interstate 90) through a tunnel under Boston Harbor directly to Logan International Airport. In addition to Commonwealth debt and funds from the Federal Government, the MTA (a component unit) and Massport (a related organization) have contributed to the costs of construction. Other assets have transferred to the city of Boston. Once completed, the assets of the project will be transferred to these entities for operations and maintenance.

The Commonwealth has recorded the Commonwealth's construction cost to date for the Central Artery / Tunnel Project, net of amounts transferred to the MTA and Massport. This amount is reflected as "Construction in Process – Central Artery / Tunnel Project". This amount is offset by two corresponding liabilities: "Due to Component Units – Central Artery / Tunnel Project"in the Statement of Net Assets for the MTA's portion and "Due to Other Related Organizations" for Massport's portion. As portions of the project are completed and transferred to either the MTA or Massport in accordance with Massachusetts General Laws, Chapter 81A, these amounts will be reduced for the value of the assets transferred.

The MTA presents its audited financial statements on a calendar year basis for the year ended December 31, 2003.

The following summarizes the activity for CA / T for FY04 (amounts in thousands):

Total Project budget as of June 30, 2004	**$ 14,625,000**
Determination of Amounts Payable:	
Cumulative authorized project invoices as of June 30, 2004	$ 13,316,707
Less: Amounts to be transferred to Massport as of December 31, 2003	(365,000)
Less: Amounts transferred previous to December 31, 2003 to MTA and recognized as assets by MTA	(1,715,923)
Less: Amounts transferred to other entities	(20,949)
Subtotal	11,214,835
Less: Reduction of payable due to accumulated depreciation of assets in use to be transferred	(247,327)
Due to Component Units - Central Artery / Tunnel Project as of June 30, 2004	**$ 10,967,508**
Reconciliation of Central Artery / Tunnel Fixed Assets to Assets to Due to Component Units - Central Artery / Tunnel Project as of June 30, 2004:	
Determination of Assets in Use:	
Infrastructure - Central Artery / Tunnel Project	$ 9,893,091
Less: Accumulated depreciation of infrastructure assets in use to be transferred	(247,327)
Net book value of Infrastructure - Central Artery / Tunnel Project	9,645,764
Land - Central Artery / Tunnel Project	442,282
Net book value of Central Artery / Tunnel Project Assets in use to be transferred	**10,088,046**
Construction in process - Central Artery / Tunnel Project	1,244,462
Subtotal	11,332,508
Less: Due to related organizations (Massport)	(365,000)
Due to Component Units - Central Artery / Tunnel Project as of June 30, 2004	**$ 10,967,508**

6. FIXED ASSETS

Depreciation expense is not charged to particular functions of the primary government. It is charged in the aggregate. Increases to accumulated depreciation differ from depreciation expense as shown on the statement of activities due to the reduction the payable to net book value of "Due to component unit – Central Artery / Tunnel Project," which is credited to depreciation expense. Capital asset activities for the fiscal year ended June 30, 2004 are as follows (amounts in thousands):

Primary Government Governmental Activities	July 1, 2003 Beginning Balance	Increases	Decreases	June 30, 2004 Ending Balance
Capital assets not being depreciated:				
Land	$ 674,362	$ 15,452	$ 4,382	$ 685,432
Land Central Artery / Tunnel Project	-	442,282	-	442,282
Construction in process - non - Central Artery / Tunnel Project	729,869	495,885	201,939	1,023,815
Construction in process - Central Artery / Tunnel Project	10,650,559	929,276	10,335,373	1,244,462
Total capital assets not being depreciated	12,054,790	1,882,895	10,541,694	3,395,991
Capital assets being depreciated:				
Buildings	3,494,370	188,251	19,640	3,662,981
Machinery and equipment	705,182	54,298	40,629	718,851
Infrastructure non - Central Artery / Tunnel Project	10,838,489	75,745	-	10,914,234
Infrastructure - Central Artery / Tunnel Project	-	9,893,091	-	9,893,091
Total capital assets being depreciated	15,038,041	10,211,385	60,269	25,189,157
Less, accumulated depreciation:				
Buildings	1,606,084	76,007	2,101	1,679,990
Machinery and equipment	581,767	51,678	35,463	597,982
Infrastructure non - Central Artery / Tunnel Project	4,022,184	264,146	-	4,286,330
Infrastructure - Central Artery / Tunnel Project	-	247,327	-	247,327
Total accumulated depreciation	6,210,035	639,158	37,564	6,811,629
Total capital assets being depreciated, net	8,828,006	9,572,227	22,705	18,377,528
Governmental activity capital assets, net	$ 20,882,796	$ 11,455,122	$ 10,564,399	$ 21,773,519

Primary Government *Business - Type Activities*	July 1, 2003 Beginning Balance	Increases	Decreases	June 30, 2004 Ending Balance
Capital assets not being depreciated:				
Land	$ 62,904	$ 375	$ 3,918	$ 59,361
Construction in process	154,962	92,009	110,738	136,233
Historical treasures	701	2	-	703
Total capital assets not being depreciated	218,567	92,386	114,656	196,297
Capital assets being depreciated:				
Buildings	2,301,599	194,081	1,312	2,494,368
Machinery and equipment	662,979	71,470	153,100	581,349
Library collections, not including historical treasures	124,310	8,817	8,641	124,486
Total capital assets being depreciated	3,088,888	274,368	163,053	3,200,203
Less, accumulated depreciation:				
Buildings	1,293,946	97,635	25,252	1,366,329
Machinery and Equipment	392,735	42,596	114,723	320,608
Library collections, not including historical treasures	17,770	1,897	771	18,896
Total accumulated depreciation	1,704,451	142,128	140,746	1,705,833
Total capital assets being depreciated, net	1,384,437	132,240	22,307	1,494,370
Business - type activity capital assets, net	$ 1,603,004	$ 224,626	$ 136,963	$ 1,690,667

Discretely Presented Component Units – Fixed assets consist of the following at June 30, 2004 (amounts in thousands):

Discretely Presented Component Units	July 1, 2003 Beginning Balance	Increases	Decreases	June 30, 2004 Ending Balance
Capital assets not being depreciated:				
Land	$ 420,815	$ 121,594	$ 54,073	$ 488,336
Construction in process	2,552,272	965,005	1,267,824	2,249,453
Total capital assets not being depreciated	2,973,087	1,086,599	1,321,897	2,737,789
Capital assets being depreciated:				
Buildings	7,586,858	422,595	69,864	7,939,589
Machinery and equipment	2,134,526	231,583	15,192	2,350,917
Infrastructure	1,406,656	932,313	894	2,338,075
Total capital assets being depreciated	11,128,040	1,586,491	85,950	12,628,581
Less, accumulated depreciation	3,937,917	363,050	-	4,300,967
Total capital assets being depreciated, net	7,190,123	1,223,441	85,950	8,327,614
Discretely Presented Component Unit capital assets, net	$ 10,163,210	$ 2,310,040	$ 1,407,847	$ 11,065,403

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Primary Government -

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term financing criteria, it is classified as a fund liability. Short-term debt may be issued on either a stand-alone basis or through a commercial paper program maintained by the Commonwealth.

A. ***General Fund***

The balance of revenue anticipation notes (RANs) outstanding may fluctuate during a fiscal year, but must be reduced to zero at June 30. During FY04, the Commonwealth issued RANs through its commercial paper program on a periodic basis to meet cash flow needs. A maximum of $450,000,000 of RANs were outstanding at any time during the year. All RANs were retired before the end of June 2004.

B. ***Capital Projects Funds***

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects. BANs may be issued either on a stand-alone basis or through the Commonwealth's commercial paper program.

Beginning in FY03 and continuing through FY04, the Commonwealth periodically issued BANs through the commercial paper program. BANs were rolled over and paid down at various times during the fiscal year. No more than $650,100,000 of BANs were outstanding under the commercial paper program at any time during FY04. At June 30, 2004, BANs totaling $75,100,000 remain outstanding.

On December 31, 2003, Massport was expected to make an additional payment to the Commonwealth under the Transfer Agreement of $50,000,000, which would have been applied against these BANs. However, under the terms of the Transfer Agreement, the final two payments of $50,000,000 each are due on December 31, 2003 and 2004, respectively, only to the extent that Massport has received assets of commensurate value. Prior to December 31, 2003, Massport informed the Commonwealth that such assets had not been received and that Massport therefore withhold the final two payments until such assets were transferred.

C. ***Line-of-Credit Facilities***

During FY04, the Commonwealth maintained line-of-credit facilities to provide liquidity support for commercial paper notes totaling $1,000,000,000. The Commonwealth has a total of five line-of-credit facilities to provide such liquidity support, each in the amount of $200,000,000. These facilities expire in periods from December 2004, through December 2006 at various times. The annual cost of these facilities ranges from 0.125% to 0.17%.

The following schedule details short – term financing and credit agreement activity for all funds for the fiscal year (amounts in thousands):

	Beginning Balance July 1, 2003	Issued / Drawn	Redeemed / Repaid	Ending Balance June 30, 2004	Credit Limit June 30, 2004
General Fund:					
Revenue anticipation notes	$ -	$ 450,000	$ (450,000)	$ -	$ -
Line-of-credit agreements	-	-	-	-	1,000,000
Subtotal - General Fund activity	-	450,000	(450,000)	-	1,000,000
Capital Projects Funds:					
Bond anticipation notes	857,100	575,000	(1,357,000)	75,100	-
Subtotal - Capital Projects Funds activity	857,100	575,000	(1,357,000)	75,100	-
Total short-term financing and credit agreement activity	$ 857,100	$ 1,025,000	$ (1,807,000)	$ 75,100	$ 1,000,000

As of June 30, 2004, no major component units had short – term debt outstanding.

The FY03 General Appropriation Act amended the RTAs' enabling statute. After July 1, 2003, bonds and notes issued by the various RTAs are no longer guaranteed by the Commonwealth and are not general obligations of the Commonwealth.

8. LONG-TERM OBLIGATIONS

Under the Constitution of the Commonwealth of Massachusetts, the Commonwealth may borrow money (a) for defense, (b) in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (c) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit to another entity by a two-thirds vote of the members of each house of the Legislature. The Legislature may not in any manner allow the Commonwealth credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 2004, the Commonwealth had three types of long-term debt outstanding, general obligation bonds (inclusive of federal highway grant anticipation notes) and special obligation bonds.

The following is a summary of the Commonwealth's debt outstanding by type of debt (amounts in thousands):

		Amount Outstanding
General Obligation Debt:		
General obligation bonds:		
Fixed rate	$	12,203,178
Variable rate		1,364,480
Auction rate securities		401,500
College opportunity bonds		83,578
County debt assumed		675
Grant anticipation notes (inclusive of cross-over refunding notes)		1,908,015
Subtotal - general obligation debt		**15,961,426**
Special Obligation Debt:		
Special obligation bonds (inclusive of cross-over refunding bonds):		
Fixed rate	$	1,335,276
Variable rate		86,590
Subtotal - special obligation debt		**1,421,866**
Discount / (premium) and issuance cost		(1,120)
Total outstanding debt	**$**	**17,382,172**

A. *General Obligation Bonds*

General Obligation Bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and Commonwealth supported local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, from which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance. In addition, forms of general obligation bonds are issued for specific programs approved by the Legislature. These are as follows:

College Opportunity Bonds

Some Commonwealth general obligation debt is issued in the form of College Opportunity Bonds (COBs) as authorized by the Massachusetts General Laws. These bonds are sold to fund the Commonwealth's "U. Plan" which is part of a college savings program administered by the Massachusetts Educational Financing Authority. These bonds are privately placed and are structured to meet the needs of investors in this plan. Such bonds were initially issued in fiscal year 1996, and have been issued in each subsequent fiscal year, including FY04, during which approximately $10,585,000, (including accretion), of such bonds were issued. Outstanding COBs have maturity dates ranging from 2005 through 2023. COBs have an accreting interest component payable at maturity. The annual accretion rate of each COB's maturity is a variable rate equal to the annual change in the Consumer Price Index (CPI) plus 2.0%. Assuming the CPI averages 3.5% during the life of the outstanding COBs the payments due at maturities of the COBs will total approximately $171,533,000, including accretion. In addition, COBs pay current interest in the amount of 0.5% per year of the initial amount still outstanding. The full faith and credit of the Commonwealth back these bonds.

County Debt Assumed

Chapter 38 of the Acts of 1997 and Chapter 300 of the Acts of 1998 abolished governments of several Massachusetts counties on various effective dates. As part of these provisions, the Commonwealth assumed the outstanding debt of Middlesex County on July 1, 1997, of Hampden and Worcester Counties on July 1, 1998, that of Essex County on July 1, 1999 and that of Berkshire County on July 1, 2000. The county debt assumed has become general obligation debt of the Commonwealth. As of June 30, 2004, $675,000 of these obligations remains outstanding.

Variable Rate Demand Bonds

Included in the long-term debt is $1,451,070,000 of general obligation variable rate demand bonds (VRDBs) maturing from 2008 through 2030 in varying amounts, of which $1,267,025,000 is swapped to fixed rates. The redemption schedule for these bonds is included in the bond redemption schedule contained herein. The interest rate on the VRDBs is determined either weekly or daily based on the activity of the Commonwealth's remarketing agents, and interest is paid monthly. On any reset date, holders of the VRDBs can require the Commonwealth (acting through its remarketing and tender agents) to repurchase the bonds (a "put"). The remarketing agent is authorized to use its best efforts to resell any repurchased bonds by adjusting the interest rates offered. The Commonwealth pays an annual fee to the remarketing agents equal to 0.05% of the outstanding par amount of the bonds.

Under the provisions of stand-by bond-purchase agreements entered into by the Commonwealth with certain commercial banks, the remarketing and tender agents are entitled to draw amounts sufficient to pay the purchase price of any bonds that cannot be resold. During any such period, the Commonwealth is required to pay the bank(s) at an interest rate based on their respective prime lending rates. If the remarketing agent is unable to resell any put bonds within six months of the put date, the stand-by bond-purchase agreements include provisions to convert any such bonds to installment loans payable over an extended period of time, with interest payable at a rate based on the bank(s) prime lending rate(s). The stand-by bond-purchase agreements expire on various dates between August of 2005 and December 2013. The Commonwealth is required to renew or replace these agreements as long as the VRDBs remain outstanding. The Commonwealth currently pays an annual fee to maintain these agreements, which range from 0.13% to 0.22% of the par amount of the bonds.

Other Variable Rate Bonds

As part of its refunding activities during FY03, the Commonwealth issued $97,455,000 of refunding bonds which pay a variable rate interest that depends on changes in the Consumer Price Index (CPI). These bonds, which pay interest every six months, are not subject to periodic remarketing, nor do bondholders have the right to "put" such bonds back to the Commonwealth.

On June 29, 2004 as part of the Commonwealth's issuance of the Convention and Exhibition Center Special Obligation Bonds, $86,590,000 of such bonds were issued paying a variable rate of interest also indexed to changes in the CPI. Similar to the 2003 Bonds, the Convention Center Bonds pay interest semiannually, but mature serially from FY15 to FY18.

Auction Rate Securities

Also included in the long-term debt is $401,500,000 of general obligation Auction Rate Securities (ARS) maturing in varying amounts from 2020 through 2030. The interest rate payable on the bonds changes weekly as determined pursuant to specified auction procedures. Interest on the bonds is payable weekly. In the case of a failed auction (i.e., insufficient bids to clear the market) existing buyers may be required to hold their bonds with interest payable at a rate equal to a percentage of an ARS industry index, up to a maximum rate of 12.0%.

B. ***Special Obligation Bonds***

The Commonwealth also issues special obligation revenue bonds as authorized by Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 2004, the Commonwealth had outstanding $1,405,930,000 of such special obligation bonds, of which $1,331,946,000 is allocated to debt not subject to the Commonwealth's statutory debt limit. These bonds are secured by a pledge of 6.86 cents of the 21 cent motor fuel excise tax imposed on gasoline.

In June of 2002, the Commonwealth sold $319,130,000 of special obligation revenue bonds, Series 2002A. Of this amount, $183,180,000 was issued to refund prior special obligation bonds. The escrow funded by the refunding bonds and related premium was used only to secure the principal related to $190,075,000, (as well as exclusive of related call premiums) in previously issued special obligation bonds, some of which matured on June 1, 2004 and others will mature in June 1, 2006 and 2008. The interest related to these maturities is not

secured by this escrow. Rather, it will be paid from the existing stream of motor fuel excise taxes. Interest on a portion of the newly issued refunding bonds will be paid from the proceeds of the escrow until the aforementioned prior bonds are called for redemption. This technique, which is generally referred to as a "crossover refunding," results in economic savings to the Commonwealth similar to a normal refunding, but does not meet the accounting definition of a legal defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed. Until such time as the escrow is used to repay the principal of the refunded bonds, such amounts will be reported in the Highway Capital Projects Fund. As of June 30, 2004, $122,315,000 of these amounts remained outstanding.

On June 29, 2004, the Commonwealth issued $686,715,000 of Special Obligation Bonds to permanently finance the costs of construction or renovation of the Commonwealth's convention and exhibition centers in Boston, Springfield and Worcester. To date, these projects were financed primarily through the issuance of notes. The total proceeds from the sale were approximately $706,729,000. The bonds are secured solely by pledged receipts of tax revenues within special districts surrounding those facilities and certain other moneys or securities established within credit facilities. The bonds mature from FY15 to FY34.

C. ***Federal Highway Grant Anticipation Notes***

The Commonwealth also issued Federal Highway GANs to finance current cash flow for the Central Artery/Tunnel Project in anticipation of future federal reimbursements. Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, authorizes the Commonwealth to sell up to $1,500,000,000 in GANs. All Federal Highway Construction reimbursements and reimbursements from the federal highway construction trust funds are pledged to the repayment of the GANs. These notes are secured by the pledge of Federal Highway Construction Reimbursements without a general obligation pledge. Under certain limited circumstances, a portion of the revenue from the Commonwealth's motor fuels excise tax may be used to pay debt service on the GANs.

During FY04, the Commonwealth sold $408,015,000 of GANs refunding notes, Series 2003A. These notes are Special Obligations of the Commonwealth. The escrow funded by the notes will be used to secure the principal related to $418,340,000 of GANs, including related call premiums, in previously issued series callable on December 15, 2008 and 2010. The interest related to these maturities is not secured by this escrow. Rather, it will be paid from Commonwealth appropriations or the existing stream of future federal grants. Interest on the newly issued refunding notes will be paid from the proceeds of the escrow until the aforementioned prior notes are called for redemption. For the purposes of the pledge but not for accounting purposes, at the time of call, the refunding notes will become GANs. This results in economic savings to the Commonwealth similar to a normal refunding, but does not meet the accounting definition of defeasance of debt, in which case the defeased debt and the related escrow accounts would have been removed. Until such time as the escrow is issued to repay the principal of the refunded notes, such amounts will be reported in the Grant Anticipation Note Trust Fund. As a result of this transaction, the Commonwealth will reduce its debt service by $23.9 million over the next 12 years, resulting in an economic gain of $15.4

million on a present value basis. Inclusive of the cross-over refunding notes, at June 30, 2004, the Commonwealth has $1,907,340,000 of GANs outstanding, including accreted interest on capital appreciation bonds with maturity dates ranging from 2006 to 2015.

D. *Interest Rate Swap Agreements*

The Commonwealth enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate refunding bonds in 1997, 1998, 2001 and 2003, the Commonwealth entered into interest rate swap agreements with certain counterparties. The purpose of these agreements is to effectively fix the interest rate payable on the corresponding variable rate refunding bonds, and to achieve an all-in synthetic interest rate that is lower than the rate that could have been achieved on a natural fixed rate basis at the time the agreements were entered into.

Terms of the Interest Rate Swap Agreements

The bonds and related swap agreements have final maturities ranging from 2013 to 2021. The swaps' total notional value of $1,451,070,000 matches the par amount of the related variable rate refunding bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties' fixed rates ranging from 4.15% to 5.25% and receives variable rate payments equal to the amount of variable rate payments the Commonwealth pays on the related variable rate refunding bonds.

The following chart details the Commonwealth's outstanding swaps and related bond issuances:

Associated Bond Issue	Notional Amounts (thousands)	Effective Date	Fixed Rate Paid (Range)	Variable Rate Received	Fair Market Values (thousands)	Final Termination Date	Counterparty Credit Rating
General Obligation Bonds:							
Series 1997B.....	$ 162,768	8/12/1997	4.659%	Actual Bond Rate	$ (12,949)	August 1, 2015	AA+/Aaa
Series 1997B.....	108,512	8/12/1997	4.659%	Actual Bond Rate	(11,005)	August 1, 2015	AAA/Aaa
Series 1998A & B...	299,712	9/17/1998	4.174%	Actual Bond Rate	(19,219)	September 1, 2016	AAA/Aaa
Series 1998A & B...	199,808	9/17/1998	4.174%	Actual Bond Rate	(8,219)	September 1, 2016	AAA/Aaa
Series 2001B & C....	496,225	2/20/2001	4.150%	Actual Bond Rate	(31,836)	January 1, 2021	AAA/Aaa
Series 2003B.....	87,455	3/12/2003	4.500%	Actual Bond Rate	1,521	March 1, 2014	AA+/Aaa
Series 2003B.....	10,000	3/12/2003	4.500%	Actual Bond Rate	297	March 1, 2013	A/A2
Subtotal.....	1,364,480				(81,410)		
Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):							
Series 2004.....	28,863	6/29/2004	4.45% - 5.25%	Actual Bond Rate	(1,301)	January 1, 2018	A/A1
Series 2004.....	28,863	6/29/2004	4.45% - 5.25%	Actual Bond Rate	(1,303)	January 1, 2018	A+/Aa3
Series 2004.....	28,863	6/29/2004	4.45% - 5.25%	Actual Bond Rate	(1,078)	January 1, 2018	AA-/Aa2
Subtotal.....	86,590				(3,682)		
Total.....	$ 1,451,070				$ (85,092)		

Fair Market Value of the Interest Rate Swap Agreements

Swap rates for the types and remaining terms of the Commonwealth's swap agreements are generally lower (as of June 30, 2004) than those that prevailed when the various swap contracts were entered into. This is the result of two factors: (1) lower interest rates in general; and (2) the shortening of the remaining terms of the swap contracts due to the passage of time and an upward sloping yield curve for such instruments. As a result, the Commonwealth's swap agreements have an estimated fair market value of negative $85,092,000 as of June 30, 2004. If all the Commonwealth's swap agreements had been terminated as of the end of fiscal year 2004, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the magnitude estimated if certain termination events occurred, as described below.

Credit Risk of the Interest Rate Swap Agreements

The swap contracts require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth could choose to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain a certain credit rating under the agreements, generally in the "A" category. If the Commonwealth's rating fell below those levels, the Commonwealth's counterparties could choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as noted below.

Basis, Market and Rollover Risk of the Interest Rate Swap Agreements

Because the terms on the interest rate swap agreements require the Commonwealth's counterparties to make variable rate payments equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not generally subject to any basis or market risk as a result of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds or the enactment of tax-related legislation which causes the related bonds to trade differently, the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the BMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indicies varied significantly from the variable rates that were determined for the Commonwealth's variable rate demand bonds through the associated remarketing process.

Swap contracts generally have the same maturity dates and amortizations as the related bonds. Therefore, the Commonwealth is not subject to any rollover risk as a result of these agreements.

Termination Risk of the Interest Rate Swap Agreements

The swap contracts use the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. If one or more of the swap agreements were terminated, then related variable rate bonds would no longer be hedged and

the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values.

The Commonwealth is party to an interest rate swap agreement relating to the Commonwealth's General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, pursuant to which the Commonwealth makes payments at a fixed rate of 4.15% per annum and receives payments from its swap counterparty at a floating rate based on the actual rate on its bonds, which are variable rate obligation bonds. The notional amount of the swap currently is $496,225,000 and the scheduled termination date is January 1, 2021. Swap payments are made monthly, with the Commonwealth netting its fixed rate obligation against the floating rate amount due from the swap counterparty. The swap documentation provide that the method for determining the floating rate obligation of the counterparty may change upon an "Event of Taxability" as defined therein. The swap counterparty has asserted that an Event of Taxability has occurred and that, as a result, commencing May 3, 2004, the Commonwealth's monthly net payments to the counterparty must be increased. The Commonwealth disagrees with this assertion and, on April 23, 2004, filed a complaint in Suffolk County Superior Court seeking a declaratory judgment and related preliminary injunction relief. The swap payment made by the Commonwealth on May 3, 2004 and each monthly payment made thereafter have been calculated based on the pre-existing method. Had they been calculated as asserted by the swap counterparty, under market conditions on each such payment date through October 1, 2004, the payments would have been approximately $1.0 million greater in the aggregate. The termination value of the swap as of June 30, 2004 is believed to have been approximately $31.8 million in favor of the swap counterparty and will vary from time to time. The Commonwealth has continued to make net swap payments based on its actual variable rate bond payments pending legal developments.

Debt service on the variable rate bonds is as follows (assuming a short term rate of 2% and a CPI rate of 3%):

Fiscal Year Ending June 30	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2005	$ -	$ 32,623,645	$ 31,965,358	$ 64,589,003
2006	-	32,623,645	31,965,358	64,589,003
2007	-	32,623,645	31,965,358	64,589,003
2008	2,340,000	32,588,545	31,927,204	66,855,749
2009	3,870,000	32,518,795	31,851,386	68,240,181
2010-2014	495,555,000	142,580,842	136,844,068	774,979,910
2015-2019	753,465,000	50,875,480	49,818,691	854,159,171
2020-2024	195,840,000	4,214,800	4,530,910	204,585,710
Total	$ 1,451,070,000	$ 360,649,397	$ 350,868,333	$ 2,162,587,730

E. ***Outstanding Debt***

For financial reporting purposes, long-term debt is carried at its face value, which includes discount and any issuance costs. The outstanding amount represents the total principal to be repaid. For capital appreciation bonds, the outstanding amount represents total principal and accreted interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding at its face amount.

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Only the net proceeds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

Long-term debt outstanding (including discount and issuance cost) and debt authorized and unissued at June 30, 2004 is as follows (amounts in thousands):

Purpose	Bonds Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs	$ 1,907,340	2006-2015	$ -
Capital Projects:			
General	5,496,512	2005-2031	3,958,557
Highway	8,774,386	2005-2034	2,666,991
Local Aid	1,142,134	2005-2031	99,146
Other	61,800	2005-2029	103,299
	15,474,832		6,827,993
Total	$ 17,382,172		$ 6,827,993

Interest rates on the Commonwealth's debt outstanding at the end of FY04 ranged from 0.0% to 8.0%.

Changes in long-term debt outstanding (including discount and issuance cost) and bonds authorized - unissued for the year ended June 30, 2004 are as follows (amounts in thousands):

	Bonds Outstanding	Authorized and Unissued
Balance July 1, 2003	$ 15,962,506	$ 8,721,581
General and special obligation bonds:		
Principal, less discount and issuance costs	1,993,086	(1,993,086)
Net premium and issuance costs	(67,096)	-
General obligation refunding bonds:		
Principal on Refunding Bonds	2,936,710	-
Principal on Refunded Bonds	(2,750,667)	-
Retired discount on Refunded Bonds	66,077	-
Increase in bonds authorized	-	310,461
Decrease in bonds authorized		(210,963)
Bonds retired	(758,444)	-
Balance June 30, 2004	$ 17,382,172	$ 6,827,993

Business Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed $200,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state colleges have also entered into various loan agreements as participants in the Massachusetts Health and Educational Facilities Authority's (MHEFA) ongoing capital asset program to finance construction projects and equipment.

At June 30, 2004, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest including all variable rate interest not hedged by swap agreements (assumed interest rate is 5%) are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities		Business - Type Activities	
	General Obligation		Revenue Obligation	
	Principal	Interest	Principal	Interest
2005	$ 880,272	$ 843,653	$ 43,621	$ 49,440
2006	998,102	829,576	24,852	49,054
2007	1,038,302	779,519	25,982	48,063
2008	1,069,225	725,953	31,867	47,032
2009	1,076,809	671,376	33,286	45,714
2010 - 2014	5,116,215	2,519,304	184,472	204,729
2015 - 2019	3,455,335	1,360,286	192,701	157,088
2020 - 2024	2,252,708	634,770	207,449	103,487
2025 - 2029	872,914	292,264	164,056	55,495
2030 - 2034	622,290	59,900	124,330	11,308
2035 - 2039	-	-	16,479	234
Total long - term debt	17,382,172	8,716,601	1,049,095	771,644
Less: Current Portion	(880,272)	(843,653)	(43,621)	(49,440)
Long - term debt	$ 16,501,900	$ 7,872,948	$ 1,005,474	$ 722,204

The Commonwealth issued bonds and notes through both competitive and negotiated sales during FY04. The costs for legal counsel and underwriting fees for bond sales were $879,000 and $23,884,000 respectively. In addition, the Commonwealth paid $156,000 for disclosure counsel services.

F. ***Bonds Defeased Through Refunding***

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation bonds through the issuance of $2,528,695,000 of general obligation refunding bonds (exclusive of the aforementioned special obligation refunding bonds) during FY04. Net proceeds totaling approximately $2,829,668,000 were used to purchase U.S. Government and U.S. Government Agency securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore are not reflected in the financial statements. As a result of these refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately $203,600,000 over the next 20 years and will experience an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately $107,200,000. At June 30, 2004, approximately $1,940,005,000 of the bonds refunded remain outstanding and are defeased.

G. ***Prior Defeasance***

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2004, approximately $4,327,954,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

H. ***Statutory Debt Limit***

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY04 was approximately $12,822,414,000. Outstanding debt subject to the limit at June 30, 2004 was approximately $12,459,055,000. The limit increases 5% per year.

By Legislatiive action, for purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Balance June 30, 2004	$ 17,382,172
Less amounts excluded:	
Premium / (discount) and issuance cost	1,120
Special obligation principal	(1,347,882)
GANs principal	(1,908,015)
County debt assumed	(675)
MBTA forward funding	(601,027)
Central Artery / Tunnel	(1,066,638)
Outstanding Direct Debt	$ 12,459,055

I. *Changes in Long – Term Liabilities*

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 2004, the following changes occurred in liabilities reported as part of the long-term liabilities in the statement of net assets (amounts in thousands):

Primary Government Governmental Activities	Interest Rates	Maturity Through	July 1, 2003 Beginning Balance	Increases	Decreases	June 30, 2004 Ending Balance	Due Within One Year
Long - term debt:							
General obligation bonds	0.00 - 8.00%	2031	$ 13,645,664	$ 3,828,381	$ 3,346,650	$ 14,127,395	$ 846,476
Special obligation bonds	4.00 - 5.50%	2034	748,124	693,400	93,642	1,347,882	27,170
Grant anticipation notes	0.00 - 7.00%	2015	1,500,000	408,015	-	1,908,015	-
Unamortized (premiums) / discounts:							
General obligation bonds			78,457	(60,411)	2,555	15,491	6,426
Special obligation bonds			(9,063)	(6,685)	188	(15,936)	200
Grant anticipation notes			(675)	-	-	(675)	-
Total long - term debt			15,962,507	4,862,700	3,443,035	17,382,172	$ 880,272
Less: Current portion			(728,485)	880,272	728,485	(880,272)	
Net long - term debt			15,234,022	3,982,428	2,714,550	16,501,900	
Other long - term liabilities:							
Due to Component Units - Central Artery / Tunnel Project			10,285,559	681,949	-	10,967,508	
Due to related organizations			365,000	-	-	365,000	
School construction grants and other contract assistance payable			3,547,944	333,228	288,818	3,592,354	
Other liabilities			598,738	644,786	598,738	644,786	
Total other long - term liabilities			14,797,241	1,659,963	887,556	15,569,648	
Total non - current liabilities			$ 30,031,263	$ 5,642,391	$ 3,602,106	$ 32,071,548	

Business - Type Activities	Interest Rates	Maturity Through	July 1, 2003 Beginning Balance	Increases	Decreases	June 30, 2004 Ending Balance	Due Within One Year
Long - term debt:							
Revenue obligation debt	0.0 - 7.5%	2037	$ 673,398	$ 402,387	$ 26,690	$ 1,049,095	$ 43,621
Other long - term liabilities:							
Compensated absences			142,427	22,611	17,211	147,827	92,577
Capital lease obligations			91,934	9,323	27,286	73,971	15,852
Other liabilities			86,965	51,524	52,557	85,932	-
Total other long - term liabilities			321,326	83,458	97,054	307,730	-
Total Long - term liabilities			994,724	485,845	123,744	1,356,825	$ 152,050
Less: Current portion			(133,240)	152,050	133,240	(152,050)	
Total non - current liabilities			$ 861,484	$ 333,795	$ (9,496)	$ 1,204,775	

Discretely Presented Component Units – Bonds and notes outstanding at June 30, 2004 (December 31, 2003 for MTA), net of unamortized discounts and premiums, along with unamortized losses on refundings of approximately $236,893,000, are as follows (amounts in thousands):

Discretely Presented Component Units			July 1, 2003 Beginning Balance	Increases	Decreases	June 30, 2004 Ending Balance	Due Within One Year
Major component units:							
MBTA	2.00 - 7.00%	2005-2034	$ 4,190,340	$ 1,195,725	$ 881,560	$ 4,504,505	$ 107,870
MTA	3.90 - 5.65%	2005-2039	2,528,788	-	13,050	2,515,738	39,935
MWPAT	3.00 - 6.375%	2005-2030	2,055,060	311,580	87,245	2,279,395	99,260
Nonmajor component units	1.77 - 9.00%	2005-2034	1,211,618	115,586	82,957	1,244,247	39,455
Total bonds payable			9,985,806	1,622,891	1,064,812	10,543,885	286,520
Compensated absences			24,681	15,986	16,178	24,489	18,549
Total Component Units			$ 10,010,487	$ 1,638,877	$ 1,080,990	$ 10,568,374	$ 305,069

The amounts below represent the gross face amounts of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general-purpose financial statements. Maturities of principal and interest are as follows (as of December 31, 2003 for MTA) (amounts in thousands):

Fiscal Year Ended June 30,	Massachusetts Bay Transportation Authority		Masschusetts Turnpike Authority		Masschusetts Water Pollution Abatement Trust		Nonmajor Component Units		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 106,735	$ 213,810	$ 39,935	$ 119,066	$ 99,260	$ 114,523	$ 39,397	$ 68,103	$ 285,327	$ 515,502
2006	88,835	223,704	19,535	118,054	100,550	110,348	68,572	65,160	277,492	517,266
2007	160,685	219,746	19,890	117,009	103,555	109,540	31,638	56,289	315,768	502,584
2008	148,885	212,337	20,555	115,927	105,915	100,805	23,345	55,418	298,700	484,487
2009	152,630	203,702	21,620	114,770	108,645	93,912	25,534	53,486	308,429	465,870
2010 - 2014	912,715	874,606	247,195	535,195	564,094	401,116	153,423	245,261	1,877,427	2,056,178
2015 - 2019	874,455	618,915	279,580	536,827	542,675	247,991	213,539	200,696	1,910,249	1,604,429
2020 - 2024	993,365	371,085	355,771	581,908	394,930	119,283	214,569	164,684	1,958,635	1,236,960
2025 - 2029	703,605	145,616	299,359	497,061	179,595	44,222	193,485	117,262	1,376,044	804,161
2030 - 2034	333,160	15,140	124,013	262,998	80,176	7,781	196,975	42,444	734,324	328,363
2035 - 2039	27,435	(1,013)	946,285	108,859	-	-	34,660	12,943	1,008,380	120,789
2040 - 2044	-	-	142,000	-	-	-	30,690	4,357	172,690	4,357
Total long - - term debt*	4,502,505	3,097,648	2,515,738	3,107,674	2,279,395	1,349,521	1,225,827	1,086,103	10,523,465	8,640,946
Current portion*	(106,735)	(213,810)	(39,935)	(119,066)	(99,260)	(114,523)	(39,397)	(68,103)	(285,327)	(515,502)
Long - term debt*	$ 4,395,770	$ 2,883,838	$ 2,475,803	$ 2,988,608	$ 2,180,135	$ 1,234,998	$ 1,186,430	$ 1,018,000	$ 10,238,138	$ 8,125,444

The MBTA issued certificates of participation (COPs) in the amounts of approximately $28,565,000 on December 15, 1988 and approximately $85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the "Forward Funding" of the MBTA, the COPs payments are not reimbursable by the Commonwealth, but are guaranteed.

The COPs bear interest at rates ranging from 7.75% to 7.80% and mature as follows (amounts in thousands):

Fiscal Year Ended June 30	Principal	Interest
2005	$ 1,135	$ 176
2006	1,135	88
	2,270	264
Less: Current Portion	(1,135)	(176)
Long Term Portion	$ 1,135	$ 88

The remaining outstanding principal balance of COPs that were defeased in prior years is $9,075,000 at June 30, 2004.

In prior years, the MBTA defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2004, approximately $1,214,675,000 of these bonds outstanding are considered defeased.

In FY04 and prior years, the MWPAT defeased in-substance ten series' of Loan Program Bonds similarly to the MBTA. On June 30, 2004, approximately $477,555,000 of these bonds outstanding are considered defeased.

Interest Rate Swap Agreements – Discretely Presented Component Units

The MBTA has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps) in order to lower its cost of capital, protect against rising interest rates, lock in rate savings and to realize refinancing savings according to schedules that suit the Component Units' needs. When the Component Unit has entered into Swaps, it has done so in order to: (1) provide lower costs fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long – term fixed rate returns on invested assets in its required reserve funds; and (3) create synthetic refinancing with cash flow savings realized as the Component Unit designates.

Summary of Swap Transactions by Category – Synthetic Fixed Rate Swap Transactions

From FY00 through FY02, MBTA executed swap agreements, associated with particular series of bonds. On one of the agreements, the MBTA will receive a $4,338,000 payment for the counterparty, due in FY07. The transactions are summarized as follows: (amounts in thousands):

Fixed Rate Paid	Variable Receive Rate	Component Unit	Notional Amount	Effective Date	Maturity Date
4.93%……	BMA	MBTA	$ 188,000	June, 2000	2005
5.2%……	BMA	MBTA	87,805	December, 2001	2022
4.13%……	CPI+79bps.	MBTA	25,005	February, 2004	2020
			$ 300,810		

Swap Payments and Associated Debt

As of June 30, 2004, debt service requirements on the various bond issuances of the MBTA that have swap payments applied to them were calculated by applying fixed rates ranging from 4.13% to 5.2% and assuming variable rates of 1.02%, using BMA and 4.679% plus 79 basis points for the CPI – based bonds. Debt service related to these swaps is as follows (amounts in thousands).

Fiscal Year Ending June 30,	Variable - Rate Bonds Principal	Variable - Rate Bonds Interest	Interest Rate Swap, Net	Total
2005	$ -	$ 4,183	$ 9,485	$ 13,668
2006	-	2,585	3,456	6,041
2007	-	2,265	2,250	4,515
2008	-	2,265	2,250	4,515
2009	-	2,265	2,250	4,515
2010 - 2014	12,325	11,246	11,002	34,573
2015 - 2019	37,870	9,565	5,768	53,203
2020 - 2022	62,615	2,058	2,530	67,203
Total	$ 112,810	$ 36,432	$ 38,991	$ 188,233

Swaptions for Forward Refundings

In addition, the MBTA has four swaptions generally exercisable from FY06 through FY11 on its variable rate general transportation system bonds. The swaptions are summarized as follows (amounts in thousands):

Execution Date	Notional Amount	Lump - Sum Payment From Counterparty	Due date of Payment	Counterparty Option Exercise Dates	Term of Swap	Fixed Payable Swap Rate	Variable Receivable Swap Rate	Counterparty Credit Rating as of June 30, 2004	Fair Value at June 30, 2004
FY02…….	$ 188,000	$ 12,230	FY06	Each March & September 2005 - 2010	2030	5.000%	67% of one-month LIBOR	Aa2 / AA+	$ (11,819)
FY02…….	79,645	4,140	FY06	Each March & September 2009 - 2011	2030	5.610%	BMA	Aaaa / AAA	(1,070)
FY03…….	123,170	10,833	In annual installments from FY04 to FY20	Each March & September 2005 - 2010	2025	5.093%	BMA	Aa2 / AA+	(2,091)
FY03…….	96,085	6,728	In annual installments from FY04 to FY20	Each March & September 2006 - 2011	2026	5.037%	BMA	Aa2 / AA+	(1,285)
	$ 486,900	$ 33,931							$ (16,265)

Credit Risk

Because all of the MBTA's swaps rely upon the performance of third parties who serve as swap counterparties, both are exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps. All fair values have been calculated using the Mark to Market or Par Value Method. To mitigate credit risk, the Component Units maintain strict credit standards for swap counterparties. For the MBTA, all swap counterparties for both Moody's and Standard & Poors rate longer-term swaps are in the "AA" category. On the MBTA's swap that matures in FY06, the counterparty is rated in the "A" category by both agencies. To further mitigate credit risk, the MBTA's swap documents require counterparties to post collateral for the MBTA's benefit if they are downgraded below a designated threshold.

Basis Risk

The MBTA is exposed to basis risk if the relationship between the floating index the MBTA receives on the swaps (BMA or 67% of LIBOR) falls short of the variable rate on the associated bonds. Should this occur, the expected savings may not be realized. As of June 30, 2004, the BMA rate was 1.08% while the variable rates on the associated MBTA bonds ranged from 1.02% to 1.38%.

Termination Risk

The MBTA's swap agreements do not contain any out of the ordinary events that would expose them to significant termination risk. In keeping with market standards, all parties may terminate each swap if the other party fails to perform under the terms of the contract. In addition the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. The MBTA views such events to be remote. If at the time of the termination a swap has a negative value, the MBTA would be liable to the counterparty for a payment equal to the fair value of each swap.

Rollover Risk

Only the MBTA's 2000 series bonds are exposed to rollover risk because the swap for the bonds terminates prior to maturity of the bonds. Upon termination of the swap, the MBTA will no longer realize the synthetic rate on the 2000 bonds and will be exposed to floating rate risk on the underlying bonds if no new hedge is put in place.

Market Access Risk and Potential Basis Risk

In the case of the swaptions, other than the FY02 swaption, if any option is exercised and refunding bonds are not issued, the bonds expected to be refunded would not be refunded and the MBTA would make net swap payments as required by the terms of each contract. There is no market acces risk for the FY02 swaption. If any of the options are exercised, the actual savings ultimately recongnized by the transactions will be affected by the relationship between the interest rate terms of the variable rate bonds versus the variable payment on the swap.

9. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type have fund deficits at June 30, 2004 as follows (amounts in thousands):

Fund		Amount
Major governmental funds:		
Highway	$	662,801
Other governmental funds:		
Federal Grants		4,636
General Capital Projects		283,256
Capital Expenditure Reserve		98,829
Highway Capital Projects		183,737

10. RETIREMENT SYSTEMS

Primary Government

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The members of the retirement systems do not participate in the Social Security System.

The Commonwealth has assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties, granted in fiscal year 1981 to 1996. The Commonwealth is statutorily required to have an actuarial valuation once every three years and every two years to confirm to the requirements of GAAP.

Plan Descriptions

The *State Employees' Retirement System* (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The SERS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand alone financial report.

The *Teachers' Retirement System* (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity and does not issue a stand-alone financial report.

The *State – Boston Retirement System* (SBRS) is a hybrid multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity (BTRS). The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth and is not part of the reporting entity and a stand-alone financial report is not available.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis. During the year ended June 30, 2004, the Commonwealth's pension expenditure included payments totaling $14,567,000 to current retirees employed prior to the establishment of the current plans and the non-contributory plans.

The policy for post-retirement benefit increases for all retirees of the SERS, TRS, BTRS and COLA of local governments is subject to legislative approval.

Membership – Membership in SERS, TRS and BTRS as of January 1, 2004, the date of the most recent valuation, is as follows:

	SERS	TRS	BTRS
Retirees and beneficiaries currently receiving benefits	51,418	39,341	2,992
Terminated employees entitled to benefits but not yet receiving them	2,966	N/A	169
Subtotal	54,384	39,341	3,161
Current employees:			
Vested*	41,229	43,978	3,432
Non-vested*	38,893	43,956	2,523
Subtotal	80,122	87,934	5,955
Total	134,506	127,275	9,116

*Estimated

Benefit Provisions

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions is with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Progress

During FY01, the Legislature passed Chapter 114 of the Acts of 2000, which modified Chapter 32 of the General Laws. This modification became effective on July 1, 2001. In Chapter 114, teachers who are members of the State Teachers Retirement System, or teachers who are members of the State – Boston Retirement System before 1975, who resigned or took an unpaid leave of absence because of maternity leave will be allowed to "buy back" into the fund up to a maximum of four years. The member must pay the amount determined by the Retirement Board by December 31, 2001 to qualify, as long as the member has worked longer than ten years. If the member completes ten years of service after December 31, 2001, payment can be made within 18 months of completion of ten years of service. In addition, the law creates a superannuation retirement benefit program for all teachers hired on or after July 1, 2001. This program has a contribution rate of 11 percent of regular compensation. To be

eligible for the alternative benefit at retirement, the teacher must have completed thirty years of eligible service. All previous members may elect to participate in the program, as long as they participate with the equivalent of a minimum of five years of employee contributions at the new rate. If the member retires before five years, the teacher must pay into the system, the amount that would have been paid in one lump sum, or in installments as the Board may prescribe. The alternative benefit is calculated as the percentage of average compensation determined under the current formula increased by 2% of the average annual compensation for each full year of service in excess of 24 years. The election to participate is irrevocable.

The following table presents the schedule of funding progress as presented in the most recent actuarial valuations at the dates indicated (amounts in thousands):

Actuarial Valuation as of January 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAL)	Funded Ratio %	Annual Covered Payroll *	UAL as a % of Covered Payroll
State Employees' Retirement System						
2004	$ 15,931,000	$ 18,966,000	$ 3,065,000	84.0 %	$ 3,842,000	79.8 %
2003	13,947,000	17,551,000	3,604,000	79.5	3,779,000	95.4
2002	15,002,000	15,961,000	959,000	94.0	4,034,000	23.8
2001	13,922,000	15,170,000	1,248,000	91.8	3,700,000	33.7
2000	13,364,000	14,138,000	773,000	94.5	3,472,000	22.3
1998	9,914,000	11,361,000	1,447,000	87.3	3,111,000	46.5
1996	7,366,000	9,441,000	2,075,000	78.0	2,989,000	69.4
1995	5,879,000	8,602,000	2,723,000	68.3	2,992,000	91.0
1993	5,071,000	8,738,000	3,667,000	58.0	2,919,000	125.6
Teachers' Retirement System						
2004	17,075,000	24,519,000	7,444,000	69.6	4,556,000	163.4
2003	14,762,000	22,892,000	8,129,000	64.5	4,406,000	184.5
2002	15,712,000	20,620,000	4,908,000	76.2	4,264,000	115.1
2001	14,390,000	18,170,000	3,779,000	79.2	4,072,000	92.8
2000	13,681,000	16,420,000	2,739,000	83.3	3,704,000	73.9
1998	10,170,000	13,095,000	2,925,000	77.7	3,175,000	92.1
1996	7,553,000	10,252,000	2,699,000	73.7	2,810,000	96.0
1995	6,014,000	9,712,000	3,698,000	61.9	2,667,000	138.7
1993	5,142,000	8,921,000	3,779,000	57.6	2,428,000	155.6
State - Boston Retirement System (Boston Teachers)						
2004	1,040,000	2,022,000	982,000	51.4	368,000	266.8
2003	919,000	1,918,000	998,000	47.9	387,000	257.9
2002	984,000	1,756,000	772,000	56.0	370,000	208.6
2001	918,000	1,502,000	583,000	61.1	304,000	191.8
2000	860,000	1,381,000	521,000	62.3	285,000	182.8
1998	699,000	1,219,000	520,000	57.3	285,000	182.5
1996	549,000	1,025,000	476,000	53.6	274,000	173.7
1995	438,000	833,000	395,000	52.6	232,000	170.3
1993	370,000	743,000	373,000	49.8	206,000	181.1

* - The covered payroll amounts approximate the employer payroll.

Pension Actuarial Valuation

The Commonwealth's pension actuarial valuation was performed as of January 1, 2004 pursuant to Chapter 32 of the General Laws of the Commonwealth of Massachusetts and based on the plan provisions at that time. The following are the most significant assumptions used in preparing the 2004 actuarial valuation:

Investment return	8.25% per year
Interest rate credited to annuity savings	3.5% per year
Cost of living increases	3% per year
Mortality	RP-2000 Health Annuitant table projected with scale AA (gender distinct). This is applicable to both pre-retirement and post-retirement benefits. Adjustments made for disabled members and certain other groups.
Salary Increases	Based on analysis of past experience - ranges from 4.75% to 8.5% for groups 1 and 2, 5.5% to 9.5% for group 3, 5.5% to 12% for group 4 and 4.75% to 9.5% for teachers.

Contributions Required and Contributions Made

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

The Commonwealth was financially responsible for the COLA granted to participants in the 104 retirement systems of cities, towns and counties in fiscal year 1981 to 1996. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to the respective system. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system. The individual employer governments are also responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity. The actuarial accrued liability for COLA as of January 1, 2004 was $522,000,000.

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the SERS, TRS and BTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Member contributions vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation except for State Police which is 12% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of $30,000

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover BTRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation.

This legislation also directed the Secretary of Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in 2004, the amortization payments are designed to eliminate the unfunded liability by fiscal year 2023 on a 4.50% increasing basis. Contributions by the Commonwealth of $687,335,000 were made during the fiscal year ended June 30, 2004. Of this amount $71,198,000 represents payments for COLA granted to participants in retirement systems of cities, towns and counties. The Commonwealth schedule encompasses SERS, TRS and Boston Teachers.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they be not less than:

- Normal cost plus amortization of net pension obligation cost
- Interest and amortization on any unfunded prior service costs

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

The following table presents the schedule of employer contributions (amounts in thousands):

Actuarial Valuation as of January 1	Annual Required Contribution (ARC)	Interest on NPO	Amortization of NPO	Pension Cost	Actual Contribution Made	Net Pension (Obligation) Asset (NPO)	% of ARC Contributed	% of Pension Cost Contributed
State Employees' Retirement System								
2004	$ 349,557	$ (109,346)	$ (90,749)	$ 330,960	$ 246,754	$ 1,241,195	71 %	75 %
2003	397,698	(117,299)	(96,940)	377,338	280,929	1,325,401	71	74
2002	215,795	(111,506)	(92,152)	196,441	266,660	1,421,811	124	136
2001	275,204	(109,731)	(133,387)	298,861	320,381	1,351,592	116	107
2000	352,084	(108,400)	107,190	350,873	367,000	1,330,071	104	105
1999	319,454	(103,188)	98,556	314,822	378,000	1,313,944	118	120
1998	261,255	(83,446)	77,180	254,989	494,289	1,250,766	189	194
1997	246,037	(65,478)	41,889	222,448	463,590	1,011,466	188	208
1996	232,158	(46,918)	29,523	214,763	433,114	770,324	187	202
1995	249,640	(31,639)	19,614	237,615	417,361	551,973	167	176
Teachers' Retirement System								
2004	610,841	(65,373)	(54,225)	599,722	359,476	552,153	59	60
2003	651,021	(83,468)	(68,980)	636,534	417,204	792,400	64	66
2002	411,225	(82,377)	(68,079)	396,927	410,143	1,011,729	100	103
2001	475,053	(78,498)	(95,421)	491,976	539,000	998,513	113	110
2000	480,873	(79,487)	78,599	479,985	468,000	951,489	97	98
1999	373,777	(70,312)	67,155	370,620	481,826	963,474	129	130
1998	315,474	(59,126)	54,686	311,034	446,619	852,267	142	144
1997	245,426	(44,832)	28,681	229,275	418,519	716,682	171	183
1996	232,403	(30,311)	19,073	221,165	392,003	527,439	169	177
1995	277,343	(24,002)	14,880	268,221	342,441	356,601	123	128
Boston Teachers Retirement System								
2004	74,787	5,374	4,460	75,701	45,364	(95,480)	61	60
2003	76,151	3,411	2,819	76,743	52,944	(65,142)	70	69
2002	94,003	(67)	(56)	93,992	51,833	(41,343)	55	55
2001	66,820	1,542	1,875	66,488	86,000	815	129	129
2000	58,266	448	(443)	58,271	45,000	(18,697)	77	77
1999	53,453	(989)	944	53,409	36,000	(5,426)	67	67
1998	48,795	(2,114)	1,995	48,636	35,000	11,983	72	72
1997	34,621	(2,082)	1,332	33,871	35,000	25,619	101	103
1996	32,908	(1,860)	1,171	32,219	34,822	24,490	106	108
1995	28,168	(1,816)	1,126	27,478	28,000	21,887	99	102

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the net pension obligation.

Change in Budgetary Funding for Pensions and Transfer of Assets

The FY04 GAA amended the General Laws to allow annual pension appropriations to be paid at an amount equal to the scheduled amount less the value of any capital assets transferred to the pension liability fund. The FY04 GAA funded the $832.3 million pension obligation using $687.3 million in cash from the General Fund and the transfer to the pension liability fund of the Commonwealth from the Massachusetts Convention Center Authority the Hynes Convention Center and the Boston Common Garage.The legislation authorizing the transfer valued the asset at $145 million. Subsequent to year-end, the FY05 GAA created a commission to study the reuse or disposition of the assets, calling into question the transfer of the asset itself. The new pension funding schedule submitted during FY04 assumes that the asset does not transfer to the pension liability fund. The commission is to report its findings and any proposed legislation needed, delivering its report no later than December 31, 2005. Due to the uncertainty of this transfer, the Commonwealth's pension funds have not recorded a receiveable for these transfers.

In addition, the FY05 GAA also added certain other pension payments to be funded "off-budget." These payments to veterans and other groups paid pursuant to various acts passed in the 1980's totaled approximately $14.6 million in FY04 and are expected to total a similar amount in FY05.

Post-retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately $273,828,000 for the fiscal year ended June 30, 2004. There are approximately 53,847 participants eligible to receive benefits at June 30, 2004.

The Commonwealth has not performed an actuarial valuation of its post-retirement health care and life insurance benefit liability. Private industry typically sees an actuarial accrued liability of 10 to 20 times the current annual payments. For the Commonwealth, this would extrapolate to an actuarial accrued liability of $2.5 billion to $5 billion.

The FY04 General Appropriation Act changed the employee contribution rates for group health insurance, with the exception of current employees earning less than $35,000 and retires. Current employees as of July 1, 2003 will contribute 20% to their health insurance costs if they earn over $35,000. New employees will contribute 25%. In fiscal 2006, the contribution rates will return to 15% for all employees.

11. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Colleges and the University lease real property and equipment under numerous operating lease agreements for varying terms.

The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Colleges and University – reported as a business-type activity, for the fiscal year ended June 30, 2004 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities				Business - Type Activities			
	Capital Leases		Operating	Governmental Activities	Capital Leases		Operating	Business -Type Activities
	Principal	Interest	Leases	Total	Principal	Interest	Leases	Total
2005	$ 19,185	$ 2,950	$ 153,888	$ 176,023	$ 15,852	$ 3,158	$ 14,472	$ 33,482
2006	15,027	2,311	98,929	116,267	14,472	2,341	11,534	28,347
2007	10,161	1,563	72,792	84,516	12,763	1,712	10,328	24,803
2008	9,080	1,396	43,710	54,186	11,952	1,168	9,798	22,918
2009	1,134	174	27,805	29,113	6,158	712	9,309	16,179
2010 - 2014	3,313	510	98,746	102,569	12,348	779	17,535	30,662
2015 - 2019	-	-	45,982	45,982	426	-	1,274	1,700
2020 - 2024	-	-	45,982	45,982	-	-	-	-
2024 - 2028	-	-	45,982	45,982	-	-	-	-
2029 - 2033	-	-	36,786	36,786	-	-	-	-
Total lease obligations	57,900	8,904	670,602	737,406	73,971	9,870	74,250	158,091
Less: current portion:	(19,185)	(2,950)	(153,888)	(176,023)	(15,852)	(3,158)	(14,472)	(33,482)
Long - term lease obligations	$ 38,715	$ 5,954	$ 516,714	$ 561,383	$ 58,119	$ 6,712	$ 59,778	$ 124,609

Discretely Presented Component Units –

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 2004 (amounts in thousands):

Fiscal Year Ended June 30	Massachusetts Bay Transportation Authority	Nonmajor Component Units	Total
2005	$ 41,403	$ 831	$ 42,234
2006	42,448	875	43,323
2007	47,901	744	48,645
2008	52,985	4	52,989
2009	47,441	-	47,441
2010 - 2014	349,147	-	349,147
2015 - 2019	186,939	-	186,939
Lease obligations	768,264	2,454	770,718
Less: Interest portion:	(230,166)	(195)	(230,361)
Present value of minimum lease payments	538,098	2,259	540,357
Less: current portion	(10,867)	(642)	(11,509)
Long - term lease obligations	$ 527,231	$ 1,617	$ 528,848

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which has been accounted for as operating leases. These leases expire through fiscal year 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MTA has operating leases for administrative office space and automatic toll collection equipment. These operating leases expire on various dates through June 2005. Lease expenses charged to the Massachusetts Turnpike and Sumner-Callahan-Williams Tunnels were approximately $953,000 of which $854,000 was paid to the Commonwealth for office space in a state-owned building.

The MTA leases property and air rights to others. The MTA earned approximately $29,800,000 in rental income of which $18,100,000 was received for restaurant, concessions and service station rentals.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (as of December 31, 2003 for the MTA) (amounts in thousands):

Fiscal Year Ended June 30	Massachusetts Bay Transportation Authority	Massachusetts Turnpike Authority	Nonmajor Component Units	Total
2005	$ 13,046	$ 869	$ 1,245	$ 15,160
2006	13,312	437	1,300	15,049
2007	13,681	-	1,054	14,735
2008	13,652	-	989	14,641
2009	13,461	-	998	14,459
2010 - 2014	43,868	-	1,259	45,127
2015 - 2019	-	-	1,213	1,213
2020 - 2024	-	-	115	115
2025 - 2029	-	-	63	63
Total lease obligations	$ 111,020	$ 1,306	$ 8,236	$ 120,562

12. COMMITMENTS

A. ***Commitments to Discretely Presented Component Units and Other Entities***

The Commonwealth is obligated to dedicate a sales tax amounting to 1% of applicable sales in the Commonwealth, directly to the MBTA to fund its operations. The dedicated sales tax equals to the greater of the amount raised by the sales tax or a defined base revenue amount, subject to an adjustment for inflation, capped at 3% annually. For FY04, the base revenue is approximately $704,809,000.

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2004, totaling $2,278,390,000. Debt issued by the MBTA subsequent to the passage of the forward funding legislation is no longer guaranteed by the fullfaith and credit of the Commonwealth.

At June 30, 2004, the Commonwealth had commitments of approximately $862,829,000 related to ongoing construction projects. The majority relate to construction funding for the Central Artery/Tunnel Project. The Central Artery/Tunnel Project continues to anticipate federal participation and payments from the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort).

In addition to the residual obligations of the MBTA, the Commonwealth guarantees debt of a number of Public Authorities. At June 30, 2004, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately $1,597,957,000, of which $693,885,000 is for the Route 3 North Transportation Improvements Association and $655,890,000 is for the University of Massachusetts Building Authority.

Under Chapter 161B of the General Laws, the Commonwealth is obligated to provide annual subsidies to certain regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. The FY04 General Appropriation Act amended Chapter 161B. Based on those amendments subsequent to July 1, 2003, bonds and notes issued by the various authorities are no longer guaranteed by the Commonwealth and are not general obligations of the Commonwealth.

B. ***Saltonstall Building***

The Massachusetts Development Finance Agency (MDFA) was authorized in legislation to undertake redevelopment of the Saltonstall State Office Building and its surrounding area. Under the provisions of MDFA's bond authorization, the building is to be leased by the MDFA for a lease term of up to 50 years with extension terms permitted for an aggregate 30 more years. The MDFA renovated the building and leases half of it back to the Commonwealth for office space and related parking for a comparable lease term. The remainder of the building and surrounding area has been redeveloped as private office space, housing and retail establishments. The Commonwealth is obligated for future lease payments for space it rents. However, this obligation is not a general obligation or a pledge of credit of the Commonwealth. Though MDFA's bonds are revenue obligations, with pledges of the public and private lease payments, the Commonwealth's lease payments are subject to annual appropriation.

C. ***Central Artery / Tunnel Project***

The Central Artery / Tunnel Project is the largest single component of the Commonwealth's capital program according to the projects finance plan filed as of October 1, 2004. The current cost estimate is $14.625 billion. The plan includes a maximum obligation of $8.549 billion from the federal government.

D. ***Pension Trust Funds***

At June 30, 2004, PRIT had outstanding commitments to invest approximately $1,655,000,000 in alternative investments and $68,000,000 in distressed debt. The fair value of the proposed investment commitments approximates their stated value.

E. ***Commitments of Discretely Presented Component Units***

Chapter 152 of the Acts of 1997 provides $609,400,000 for the construction of a Convention and Exhibition Center that will provide 600,000 square feet of exhibit space at a site in South Boston. The Boston Redevelopment Authority (BRA) is authorized and directed by the legislation to acquire the land, properties, and rights related to the proposed construction site. Once this is accomplished, the Massachusetts Convention Center Authority (MCCA) will oversee construction of the new facility. The MCCA will operate the new center and the Springfield Civic Center, along with the Hynes Convention Center and the Boston Common Garage on behalf of PRIT, if the facilities transfer is completed.

As of June 30, 2004, the Massachusetts Water Pollution Abatement Trust (MWPAT) has agreed to provide loans of $28,000,000 to various local government units to be funded with grant awards.

The MTA entered into construction contracts for the Metropolitan Highway system and the Western Turnpike with various construction and engineering companies. Construction contracts outstanding at December 31, 2003 approximated $14,000,000.

F. ***Boston Housing Authority West Broadway Homes Project***

In FY04, the Boston Housing Authority (BHA) issued $10 million of housing project bonds to finance a portion of the costs of construction of a lower income public housing project in South Boston. A captive non-profit corporation of the BHA will own and operate the project. The Commonwealth has agreed in the form of contract assistance to subsidize these bonds as part of other subsidies provided to the BHA for its normal operations, subject to appropriation. A portion of the bonds may be redeemed by advance additional grant funds to the BHA on December 1, 2006, to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment of Commonwealth operating subsidy fund to the BHA allocable to the project as well as other funds available to the BHA.

13. CONTINGENCIES

Primary Government -

Governmental Funds – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance, which are managed in its general operations. A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately $6,650,000 as of June 30, 2004. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund that received the assistance. As of June 30, 2004, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets, less $6,907,000 that is expected to be reclaimed and paid in fiscal year 2004, are to be remitted to the General Fund each June 30, where it is included as a transfer. Amounts remitted during fiscal year 2003 totaled approximately $103,803,000. Since inception, approximately $1,160,167,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

A. ***Tobacco Settlement***

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than $200 billion over the first 25 years, subject to various offsets, reductions, and adjustments.

In FY04, the Commonwealth received approximately $253,621,000 or 90% of the estimated amounts shown in the MSA. All received amounts were transferred to the General Fund.

On December 19, 2003, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the Master Settlement Agreement through 2025. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

B. ***Unemployment Compensation Fund***

During FY04, the Commonwealth received loans from the federal government to fund the unemployment compensation operating deficit, the fund balance declined by $368.2 million. All of these borrowings were paid back in May 2004. No additional revenues were needed to be collected from employers in order to pay accrued interest as the loans were interest free. The fund balance in the Unemployment Compensation Fund stands at approximately $122.5 million as of June 30, 2004. On October 13, 2004, the Commissioner of the Division of Unemployment Assistance announced that further loans will be needed in FY05 to pay unemployment benefits.

C. ***Workers' Compensation and Group Insurance Liabilities***

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances.

Based on actuarial calculations as of June 30 2004, discounted at 4%, the Commonwealth is liable for unfunded claims and incurred but not reported claims totaling $302.2 million, which is reported in accrued liabilities in the Governmental Activities.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY04 were (amounts in millions):

Claim liability, beginnng of year……	$	275.7
Increase in liability estimate……		77.8
Payments and decreases in liability estimate……		51.3
Claims liability, end of year……	$	302.2

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Based on GIC estimates, the Commonwealth is liable for an amount of $37.4 million. Changes in the Commonwealth's liability relating to Group Insurance claims in FY04 were (in million):

Claim liability, beginnng of year……	$	47.0
Increase in liability estimate……		778.0
Payments and decreases in liability estimate……		787.6
Claims liability, end of year……	$	37.4

Owner Controlled Insurance Program (OCIP)

D. *Central Artery/Tunnel Project*

The Commonwealth of Massachusetts has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project by establishing an Owner Controlled Insurance. The Highway Department established a trust managed and administered by an independent third party (trustee) to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The withdrawals, other than those to cover costs specified by the Trust Agreement, require mutual consent. During FY03 federally funded fund assets were replaced by state assets and therefore are no longer restricted as to the ultimate distribution at the end of the Project.

The Project's OCIP activity is reported as a minor govemmental (capital project) fund. The "Claims and Judgements" liabilities reported within the fund represents the Project's liabilities as estimated by an independent actuary for incurred losses projected to their ultimate value as of the end of the fiscal year for FY03. The remaining liability is reported as part of the non-current liability in the statement of net assets.

As of June 30, 2004, the OCIP has accumulated approximately $203,071,000 in assets that consist of approximately $144,088,000 in cash and investments, approximately $58,043,000 in funds held by the investment provider and approximately $1,000,000 in interest income receivable. Net assets at year – end of approximately $76,313,000 were restricted for workers' compensation and general liability claims.

The OCIP's assets are to be available to pay the obligations under the programs. These insurance programs are presently structured as retrospectively rated insurance programs with retained loss limits of $1,000,000 per claim, $3,000,000 per occurrence for worker's compensation and $2,000,000 per enrolled contractor or other named insureds, $6,000,000 per occurrence for general liability coverage. The Commonwealth is responsible for loss costs up to these amounts.

The estimated Claims and Judgements liability for the OCIP for occurrences through June 30, 2004 is $113,800,000, of which $31,100,000 is presented as a current liability in the minor governmental fund, while the remaining $82,700,000 is presented on the statement of net assets. This amount is based on the results of a review performed by an independent actuarial firm retained by the Project, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2004.

Central Artery / Tunnel Project Leaks

In September 2004, a leak was discovered in the I-93 tunnel. Subsequent to this, the existence of other leaks in the Central Artery / Tunnel Project have been identified. The Massachusetts Turnpike Authority and project management have asserted that the independent engineer retained by the Project has examined this issue and the Turnpike Authority believes that correcting those conditions is within the scope of existing contracts and will not result in significant additional costs for either the Turnpike Authority or the Commonwealth. At this time, the Commonwealth has not independently assessed the extent of the leaks or to what extent a liability, if any for these repairs, would accrue to the Commonwealth.

E. ***Claims and Judgmetns***

The following amounts were recognized as of June 30, 2004 (amounts in thousands):

	Balance as of July 1, 2003	Additions	Reductions	Balance as of June 30, 2004
Short-term……	$ 84,696	$ 13,539	$ 60,485	$ 37,750
Long-term……	75,700	7,000	-	82,700
	$ 160,396	$ 20,539	$ 60,485	$ 120,450

F. ***Discretely Presented Component Units***

The MBTA reserves self-insurance liabilities as claims and judgements as of June 30, 2004. Changes in the self-insurance reserves in fiscal 2004 and 2003 were as follows (amounts in thousands):

	2004	2003
Liability, beginning of year……	$ 88,837	$ 86,644
Current year claims and changes in estimates……	128,281	103,949
Claims payments……	(128,012)	(101,756)
Liability, end of year……	$ 89,106	$ 88,837

Required Supplementary Information

Other than Management Discussion and Analysis

Football Hero

1961 Massachusetts Mutual Insurance advertisement. Licensed by Norman Rockwell Licensing, Niles, IL.

In the 1950s and the 1960s the Massachusetts Mutual Life Insurance Company of Springfield, Massachusetts, commissioned Rockwell to create scenes reflecting American family life for its national advertising campaign. These popular images appeared in such leading publications as *The Saturday Evening Post*, *TIME* and *Newsweek* with the text that inspired readers to consider purchasing life insurance. They constitute the largest group of works created by the artist for any single commission.

Many of Rockwell's neighbors, and the artist himself, appear as models in this series. This one shows the Huggins brothers, Jerry and Jay who were featured in a number of his illustrations.

Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

General Fund

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	$ 13,386,600	$ 13,386,600	$ 14,558,577	$ 1,171,977
Assessments	-	-	115,131	115,131
Federal grants and reimbursements	4,592,700	4,592,700	4,349,022	(243,678)
Departmental	1,871,500	1,871,500	1,200,833	(670,667)
Miscellaneous	-	-	118,085	118,085
Total revenues	**19,850,800**	**19,850,800**	**20,341,648**	**490,848**
Other financing sources:				
Fringe benefit cost recovery	-	-	177,646	177,646
Lottery reimbursements	-	78,203	78,426	223
Lottery distributions	-	957,812	904,417	(53,395)
Tobacco settlement transfer	-	-	253,621	253,621
Operating transfers in	1,164,635	128,620	320,761	192,141
Stabilization transfer	-	-	491,468	491,468
Total other financing sources	**1,164,635**	**1,164,635**	**2,226,339**	**1,061,704**
Total revenues and other financing sources	**21,015,435**	**21,015,435**	**22,567,987**	**1,552,552**
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature	68,505	77,191	50,535	26,656
Judiciary	569,677	617,626	572,504	45,122
Inspector General	2,501	2,501	2,280	221
Governor and Lieutenant Governor	5,135	5,135	4,892	243
Secretary of the Commonwealth	34,607	37,442	34,158	3,284
Treasurer and Receiver-General	179,762	119,203	107,474	11,729
Auditor of the Commonwealth	16,265	16,323	16,222	101
Attorney General	33,115	33,681	32,572	1,109
Ethics Commission	1,265	1,302	1,260	42
District Attorney	73,473	74,238	73,913	325
Office of Campaign & Political Finance	998	998	994	4
Sheriff's Departments	211,083	215,906	214,351	1,555
Disabled Persons Protection Commission	1,572	1,572	1,567	5
Board of Library Commissioners	3,181	3,180	3,178	2
Comptroller	8,680	8,680	8,427	253
Administration and finance	1,273,069	1,335,368	1,266,255	69,113
Environmental affairs	166,527	227,354	159,679	67,675
Communities and development	66,959	73,962	67,217	6,745
Health and human services	4,471,001	4,549,970	4,482,500	67,470
Transportation and construction	43,085	100,987	91,999	8,988
Education	439,601	466,282	348,650	117,632
Higher education	784,411	845,671	831,295	14,376
Public safety	612,924	665,471	635,509	29,962
Consumer affairs	64,347	69,671	63,212	6,459
Direct local aid	4,781,348	4,861,304	4,783,983	77,321
Medicaid	5,424,197	5,500,277	5,261,238	239,039
Pension	16,791	13,802	699,309	(685,507)
Debt service:				
Principal retirement	549,727	455,405	436,995	18,410
Interest and fiscal charges	446,904	345,822	322,031	23,791
Total expenditures	**20,350,710**	**20,726,324**	**20,574,199**	**152,125**
Other financing uses:				
Excess permissable tax revenue	-	357,403	357,403	-
Uncompensated care pool transfer	-	245,000	245,000	-
School building assistance transfer	-	150,000	150,000	-
Operating transfers out	-	146,593	146,593	-
Stabilization transfer	-	-	538,926	(538,926)
Total other financing uses	**-**	**898,996**	**1,437,922**	**(538,926)**
Total expenditures and other financing uses	**20,350,710**	**21,625,320**	**22,012,121**	**(386,801)**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	664,725	(609,885)	555,866	1,165,751
Fund balances (deficits) at beginning of year	747,846	747,846	746,846	(1,000)
Fund balances (deficits) at end of year	**$ 1,412,571**	**$ 137,961**	**$ 1,302,712**	**$ 1,164,751**

See note to required supplementary information-Budgetary Reporting

Schedule Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

Highway Fund

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance over/(under)
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	$ 600,100	$ 600,100	$ 585,226	$ (14,874)
Assessments	-	-	11,490	11,490
Federal grants and reimbursements	3,700	3,700	1,952	(1,748)
Departmental	427,500	427,500	398,231	(29,269)
Miscellaneous	-	-	1,304	1,304
Total revenues	**1,031,300**	**1,031,300**	**998,203**	**(33,097)**
Other financing sources:				
Operating transfers in	7,100	7,100	68,713	61,613
Stabilization transfer	-	-	200	200
Federal reimbursement transfer in	-	-	85	85
Total other financing sources	**7,100**	**7,100**	**68,998**	**61,898**
Total revenues and other financing sources	**1,038,400**	**1,038,400**	**1,067,201**	**28,801**
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Treasurer and Receiver-General	4,153	1,164	1,149	15
Attorney General	429	432	432	-
District Attorney	2,716	3,259	3,011	248
Sheriff's Departments	-	431	360	71
Administration and finance	5,764	5,764	5,746	18
Environmental affairs	106	1	1	-
Communities and development	-	158	156	2
Transportation and construction	46,625	45,688	44,552	1,136
Public safety	244,992	247,295	244,790	2,505
Consumer affairs	-	61	61	-
Pension	-	2,989	2,593	396
Debt service:				
Principal retirement	257,864	402,499	389,358	13,141
Interest and fiscal charges	267,439	388,072	343,849	44,223
Total expenditures	**830,088**	**1,097,813**	**1,036,058**	**61,755**
Other financing uses:				
Fringe benefit cost assessment	-	-	41,743	(41,743)
Operating transfers out	-	83,418	83,418	-
Total other financing uses	**-**	**83,418**	**125,161**	**(41,743)**
Total expenditures and other financing uses	**830,088**	**1,181,231**	**1,161,219**	**20,012**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	208,312	(142,831)	(94,018)	48,813
Fund balances (deficits) at beginning of year	(596,027)	(596,027)	(596,027)	-
Fund balances (deficits) at end of year	**$ (387,715)**	**$ (738,858)**	**$ (690,045)**	**$ 48,813**

See note to required supplementary information-Budgetary Reporting

Explanation of Differences between Revenues, Expenditures and Other Financing Sources (Uses) for Major Budgetary Funds on a Budgetary Basis and GAAP Basis (in thousands):

	General Fund	Highway Fund
Revenues:		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	$ 20,341,648	$ 998,203
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Tax revenue	81,991	303
Federal reimbursements and other receivables	(33,718)	159
Reclassifications:		
Higher education revenue is reclassified for GAAP reporting	(84,043)	-
Reclassifications of revenue from administratively controlled funds to major funds for GAAP	124,279	-
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 20,430,157**	**$ 998,665**
Expenditures:		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	$ 20,574,199	$ 1,036,058
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:		
Medicaid payments	(60,500)	-
Compensated absences and other accrued liabilities	(15,815)	(1,840)
Reclassifications:		
Budgetary debt service are reclassifed to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	(759,026)	(733,207)
Higher education revenue is reclassified for GAAP reporting	(907,143)	-
Reclassifications of revenue from administratively controlled funds to major funds for GAAP	134,226	-
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 18,965,941**	**$ 301,011**
Other Financing Sources:		
Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule	$ 2,226,339	$ 68,998
Adjustments:		
Fund closure and consolidation amounts	(1,745,812)	-
Inflows from component units and other miscellaneous financing sources	10,664	-
Reclassifications:		
Reclassifications of other financing sources from administratively controlled funds to major funds for GAAP	1,396,910	-
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 1,888,101**	**$ 68,998**
Other Financing Uses:		
Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule	$ 1,437,922	$ 125,161
Adjustments and Reclassifications:		
Fund closure and consolidation amounts	(1,745,812)	-
Budgetary higher education amounts are reclassed to transfers under the modified accrual basis	823,100	-
Reclassifications of other financing uses from administratively controlled funds to major funds for GAAP	890,551	-
Budgetary debt service are reclassifed to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund	759,026	733,207
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	**$ 2,164,787**	**$ 858,368**

Note to Required Supplementary Information – Budgetary Reporting

Statutory Basis of Accounting

The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, but is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year-end. Deeds excise taxes are recognized at the time of collection by the counties and the Commonwealth.

Statutory expenditures generally are recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. All encumbrances that do not relate to specific payables lapse at year-end.

Budgetary Approval

State finance law requires that the Governor and the Legislature approve a balanced budget. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriations acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the account's expenditure budget.

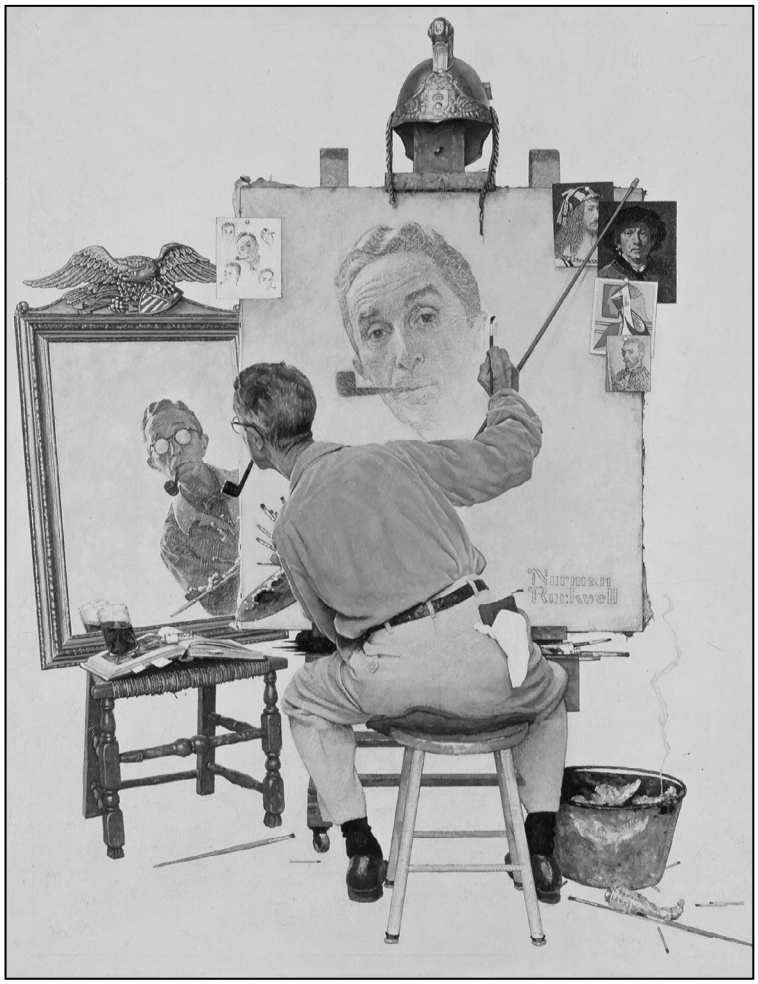
The majority of the Commonwealth's appropriations are non-continuing accounts, which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a discrepancy to separately published budget documents. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. In addition, certain interfund assessments to allocate fringe benefits and other costs that are mandated by state finance law are not itemized in the appropriation process or separately budgeted.

GAAP require that the originally adopted general appropriation act be in the "original budget column" and the final legally adopted budget, including supplemental appropriations, be reflected in the "final budget" column. The "actual" column contains the statutory inflows and outflows related to budgetary accounts. The "variance" column contains the difference between the "final budget" and the "actual" columns. A positive number in revenues and other financing sources reflects increased revenues over budget. A positive number in expenditures and other financing uses reflects increased revenues over budget.

Other Supplementary Information



Triple Self-Portrait

Saturday Evening Post cover, February 13, 1960 ©1960 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

Rockwell painted many self-portraits over the years, this one, done when the artist was 66-years-old, is the most famous. While self-portraits are common, multiple self-portraits are not.

This year the original oil on canvas was loaned to the Musee du Luxembourg Paris, France, to be included in the traveling exhibition *Moi! Autoportraits du XXeme siecle* (*Me! Self-portraits of the 20th Century*) which was also hosted by the Galleria degli Uffizi in Florence, Italy. This marks the first time the venerable Italian museum has hosted a contemporary art exhibition. The exhibition presented self-portraits by some of the most renowned names in 20th century art, such as Picasso, Matisse, and Degas, but the image used to promote the exhibit across Paris was the icon of all things American, Norman Rockwell.

Combined Balance Sheet

Nonmajor Governmental Funds
June 30, 2004
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
ASSETS			
Cash and short-term investments	$ 1,464,539	$ -	$ 1,464,539
Cash with fiscal agent	521,040	202,166	723,206
Restricted investments	374,568	-	374,568
Receivables, net of allowance for uncollectibles:			
Taxes	70,046	-	70,046
Due from federal government	836,654	1	836,655
Other receivables	221,486	963	222,449
Due from other funds	43,918	435,262	479,180
Total assets	**$ 3,532,251**	**$ 638,392**	**$ 4,170,643**
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 645,928	$ 274,187	$ 920,115
Accrued payroll	3,245	1,386	4,631
Compensated absences	19,856	8,229	28,085
Tax refunds and abatements payable	960	-	960
Due to other funds	535,409	599,461	1,134,870
Due to component units	98,168	15,650	113,818
Due to federal government	-	47	47
Deferred revenue	3,120	-	3,120
Claims and judgments	-	31,100	31,100
Bonds, notes payable and certificates of participation	-	75,100	75,100
Other accrued liabilities	125,148	-	125,148
Total liabilities	**1,431,834**	**1,005,160**	**2,436,994**
Fund balances (deficits):			
Reserved for continuing appropriations	292,428	-	292,428
Reserved for retirement of indebtedness	521,040	-	521,040
Reserved for capital projects	-	82,165	82,165
Reserved for central artery workers' compensation and general liability	-	159,013	159,013
Unreserved	1,286,949	(607,946)	679,003
Fund balances (deficits)	**2,100,417**	**(366,768)**	**1,733,649**
Total liabilities and fund balances	**$ 3,532,251**	**$ 638,392**	**$ 4,170,643**

Combined Statement Of Revenues, Expenditures And Changes In Fund Balances

Nonmajor Governmental Funds
Fiscal Year Ended June 30, 2004
(Amounts in thousands)

	Other Special Revenue	Other Capital Projects	Total
Revenues:			
Taxes	$ 905,575	$ -	$ 905,575
Assessments	651,024	-	651,024
Federal grants and reimbursements	4,319,445	3,409	4,322,854
Departmental	937,536	5,502	943,038
Miscellaneous	561,593	104,280	665,873
Total revenues	**7,375,173**	**113,191**	**7,488,364**
Other financing sources:			
Proceeds of general obligation bonds	-	1,913,076	1,913,076
Proceeds of refunding bonds	469,106	-	469,106
Operating transfers in	1,323,312	679,575	2,002,887
Total other financing sources	**1,792,418**	**2,592,651**	**4,385,069**
Total revenues and other financing sources	**9,167,591**	**2,705,842**	**11,873,433**
Expenditures:			
Current:			
Judiciary	4,083	-	4,083
Secretary of the Commonwealth	8,618	-	8,618
Treasurer and Receiver-General	861,447	15,650	877,097
Auditor of the Commonwealth	275	-	275
Attorney General	12,041	-	12,041
District Attorney	9,400	-	9,400
Sheriff's Departments	2,796	-	2,796
Disabled Persons Protection Commission	48	-	48
Board of Library Commissioners	3,219	-	3,219
Administration and finance	234,101	-	234,101
Environmental affairs	65,664	-	65,664
Communities and development	404,298	-	404,298
Health and human services	2,331,149	-	2,331,149
Transportation and construction	17,851	42,070	59,921
Education	833,163	-	833,163
Higher education	11,783	-	11,783
Public safety	149,277	-	149,277
Consumer affairs	314,459	-	314,459
Medicaid	744,856	-	744,856
Direct local aid	6,272	-	6,272
Capital outlay:			
Local aid	-	15,634	15,634
Capital acquisition and construction	-	1,751,634	1,751,634
Total expenditures	**6,014,800**	**1,824,988**	**7,839,788**
Other financing uses:			
Operating transfers out	2,099,376	168,082	2,267,458
Transfers of appropriations	505	-	505
Transfers of bond proceeds	-	59,414	59,414
Transfers out for debt service	96,219	16,398	112,617
Total other financing uses	**2,196,100**	**243,894**	**2,439,994**
Total expenditures and other financing uses	**8,210,900**	**2,068,882**	**10,279,783**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**956,691**	**636,960**	**1,593,651**
Fund balances (deficits) at beginning of year	1,143,726	(1,003,728)	139,998
Fund balances (deficits) at end of year	**$ 2,100,417**	**$ (366,768)**	**$ 1,733,649**

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
ASSETS					
Cash and short-term investments	$ -	$ 216,581	$ 11,142	$ 1,236,816	$ 1,464,539
Cash with fiscal agent	-	-	-	521,040	521,040
Restricted investments	-	-	-	374,568	374,568
Receivables, net of allowance for uncollectibles:					
Taxes	-	-	77	69,969	70,046
Due from federal government	395,219	45,529	562	395,344	836,654
Other receivables	-	70,647	-	150,839	221,486
Due from other funds	-	-	-	43,918	43,918
Total assets	**$ 395,219**	**$ 332,757**	**$ 11,781**	**$ 2,792,494**	**$ 3,532,251**
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 224,334	$ 180,150	$ 5	$ 241,439	$ 645,928
Accrued payroll	2,473	21	-	751	3,245
Compensated absences	15,984	-	596	3,276	19,856
Tax refunds and abatements payable	-	-	-	960	960
Due to other funds	157,064	-	-	378,345	535,409
Due to component units	-	-	-	98,168	98,168
Deferred revenue	-	2,389	-	731	3,120
Other accrued liabilities	-	125,148	-	-	125,148
Total liabilities	**399,855**	**307,708**	**601**	**723,670**	**1,431,834**
Fund balances (deficits):					
Reserved for continuing appropriations	-	-	500	291,928	292,428
Reserved for retirement of indebtedness	-	-	-	521,040	521,040
Unreserved	(4,636)	25,049	10,680	1,255,856	1,286,949
Fund balances (deficits)	**(4,636)**	**25,049**	**11,180**	**2,068,824**	**2,100,417**
Total liabilities and fund balances	**$ 395,219**	**$ 332,757**	**$ 11,781**	**$ 2,792,494**	**$ 3,532,251**

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Nonmajor Special Revenue Funds

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	Federal Grants	Universal Health Care	Environmental	Other Special Revenue Funds	Total
Revenues:					
Taxes	$ -	$ -	$ 902	$ 904,673	$ 905,575
Assessments	-	315,676	-	335,348	651,024
Federal grants and reimbursements	2,335,534	445,792	5,036	1,533,083	4,319,445
Departmental	-	677,629	7,890	252,017	937,536
Miscellaneous	56	1,581	19	559,937	561,593
Total revenues	**2,335,590**	**1,440,678**	**13,847**	**3,585,058**	**7,375,173**
Other financing sources:					
Proceeds of refunding bonds	-	-	-	469,106	469,106
Operating transfers in	4,152	402,759	171	916,230	1,323,312
Total other financing sources	**4,152**	**402,759**	**171**	**1,385,336**	**1,792,418**
Total revenues and other financing sources	**2,339,742**	**1,843,437**	**14,018**	**4,970,394**	**9,167,591**
Expenditures:					
Current:					
Judiciary	1,040	-	-	3,043	4,083
Secretary of the Commonwealth	645	-	-	7,973	8,618
Treasurer and Receiver-General	5,177	-	-	856,270	861,447
Auditor of the Commonwealth	-	-	-	275	275
Attorney General	10,094	-	-	1,947	12,041
District Attorney	3,543	-	-	5,857	9,400
Sheriff's Departments	2,729	-	-	67	2,796
Disabled Persons Protection Commission	48	-	-	-	48
Board of Library Commissioners	3,219	-	-	-	3,219
Administration and finance	7,616	100	-	226,385	234,101
Environmental affairs	30,181	-	8,405	27,078	65,664
Communities and development	401,134	-	-	3,164	404,298
Health and human services	689,736	1,451,353	-	190,060	2,331,149
Transportation and construction	17,348	-	-	503	17,851
Education	831,359	-	-	1,804	833,163
Higher education	5,183	-	-	6,600	11,783
Public safety	88,067	-	-	61,210	149,277
Consumer affairs	160,818	38,815	-	114,826	314,459
Medicaid	-	-	-	744,856	744,856
Direct local aid	-	-	-	6,272	6,272
Total expenditures	**2,257,937**	**1,490,268**	**8,405**	**2,258,190**	**6,014,800**
Other financing uses:					
Operating transfers out	80,008	346,838	1,098	1,671,432	2,099,376
Transfers of appropriations	505	-	-	-	505
Transfers out for debt service	-	-	-	96,219	96,219
Total other financing uses	**80,513**	**346,838**	**1,098**	**1,767,651**	**2,196,100**
Total expenditures and other financing uses	**2,338,450**	**1,837,106**	**9,503**	**4,025,841**	**8,210,900**
Excess (deficiency) of revenues and other financing sourc over expenditures and other financing uses	**1,292**	**6,331**	**4,515**	**944,553**	**956,691**
Fund balances (deficits) at beginning of year	(5,928)	18,718	6,665	1,124,271	1,143,726
Fund balances (deficits) at end of year	**$ (4,636)**	**$ 25,049**	**$ 11,180**	**$ 2,068,824**	**$ 2,100,417**

Combining Balance Sheet

Nonmajor Capital Projects Funds

June 30, 2004

(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
ASSETS						
Cash with fiscal agent	$ -	$ -	$ -	$ -	$ 202,166	$ 202,166
Receivables, net of allowance for uncollectibles:						
Due from federal government	1	-	-	-	-	1
Other receivables	-	-	-	-	963	963
Due from other funds	-	100,882	-	-	334,380	435,262
Total assets	**$ 1**	**$ 100,882**	**$ -**	**$ -**	**$ 537,509**	**$ 638,392**
AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 106,687	$ 20,509	$ -	$ 55,295	$ 91,696	$ 274,187
Accrued payroll	406	-	-	977	3	1,386
Compensated absences	1,051	-	-	7,172	6	8,229
Due to other funds	175,113	-	23,729	120,293	280,326	599,461
Due to component units	15,650	-	-	-	-	15,650
Due to federal government	-	-	-	-	47	47
Claims and judgments	-	-	-	-	31,100	31,100
Bonds, notes payable and certificate of participation	-	-	75,100	-	-	75,100
Total liabilities	**298,907**	**20,509**	**98,829**	**183,737**	**403,178**	**1,005,160**
Fund balances (deficits):						
Reserved for capital projects	-	80,373	-	-	1,792	82,165
Reserved for central artery workers' compensation	-	-	-	-	159,013	159,013
Unreserved	(298,906)	-	(98,829)	(183,737)	(26,474)	(607,946)
Fund balances (deficits)	**(298,906)**	**80,373**	**(98,829)**	**(183,737)**	**134,331**	**(366,768)**
Total liabilities and fund balances	**$ 1**	**$ 100,882**	**$ -**	**$ -**	**$ 537,509**	**$ 638,392**

Statement Of Revenues, Expenditures And Changes In Fund Balances

Nonmajor Capital Projects Funds

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	General Capital Projects Funds	Convention and Exhibition Center	Capital Expenditure Reserve	Highway Capital Projects	Other Capital Projects Funds	Total
Revenues:						
Federal grants and reimbursements	$ 1	$ -	$ -	$ -	$ 3,408	$ 3,409
Departmental	-	-	-	-	5,502	5,502
Miscellaneous	-	2,482	-	100,901	897	104,280
Total revenues	**1**	**2,482**	**-**	**100,901**	**9,807**	**113,191**
Other financing sources:						
Proceeds of general obligation bonds	606,864	693,400	-	546,901	65,911	1,913,076
Operating transfers in	-	-	-	6,172	673,403	679,575
Total other financing sources	**606,864**	**693,400**	**-**	**553,073**	**739,314**	**2,592,651**
Total revenues and other financing sources	**606,865**	**695,882**	**-**	**653,974**	**749,121**	**2,705,842**
Expenditures:						
Current:						
Treasurer and Receiver-General	15,650	-	-	-	-	15,650
Transportation and construction	-	-	-	-	42,070	42,070
Capital outlay:						
Local aid	-	-	-	-	15,634	15,634
Capital acquisition and construction	540,819	112,941	-	393,629	704,245	1,751,634
Total expenditures	**556,469**	**112,941**	**-**	**393,629**	**761,949**	**1,824,988**
Other financing uses:						
Operating transfers out	7,039	-	-	157,117	3,926	168,082
Transfers of bond proceeds	59,402	-	-	-	12	59,414
Transfers out for debt service	-	-	-	16,398	-	16,398
Total other financing uses	**66,441**	**-**	**-**	**173,515**	**3,938**	**243,894**
Total expenditures and other financing uses	**622,910**	**112,941**	**-**	**567,144**	**765,887**	**2,068,882**
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	**(16,045)**	**582,941**	**-**	**86,830**	**(16,766)**	**636,960**
Fund balances (deficits) at beginning of year	(282,861)	(502,568)	(98,829)	(270,567)	151,097	(1,003,728)
Fund balances (deficits) at end of year	**$ (298,906)**	**$ 80,373**	**$ (98,829)**	**$ (183,737)**	**$ 134,331**	**$ (366,768)**

Combined Balance Sheet

Nonmajor Component Units
June 30, 2004
(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Economic Development Entities	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 17,913	$ 35,099	$ 18,092	$ 43,531	$ 128,091	$ 242,726
Short-term investments	-	153,882	-	-	14,639	168,521
Receivables, net of allowance for uncollectibles:						
Federal grants and reimbursement receivable	-	-	15,287	-	4,927	20,214
Loans	-	9,401	-	-	7,894	17,295
Other receivables	803	7,587	14,520	6,910	11,192	41,012
Due from cities and towns	-	-	20,052	-	-	20,052
Due from primary government	26,942	10,534	56,718	-	6,575	100,769
Inventory	-	21,849	596	-	54	22,499
Other current assets	1,118	7,738	3,744	106	310	13,016
Total current assets	**46,776**	**246,090**	**129,009**	**50,547**	**173,682**	**646,104**
Noncurrent assets:						
Cash and cash equivalents - restricted	6,753	27,319	135	24,240	106,436	164,883
Long - term investments	-	20,909	-	79,689	8,074	108,672
Restricted investments	-	-	-	66,394	109,462	175,856
Accounts receivables, net	-	3,549	-	3,375	6,192	13,116
Loans receivables, net	-	76,330	-	-	163,778	240,108
Due from primary government	6,323	-	-	-	326,905	333,228
Capital assets, net of accumulated depreciation	833,320	209,320	231,428	13,165	232,117	1,519,350
Other noncurrent assets	330	21,197	3,994	-	11,547	37,068
Total noncurrent assets	**846,726**	**358,624**	**235,557**	**186,863**	**964,511**	**2,592,281**
Total assets	**893,502**	**604,714**	**364,566**	**237,410**	**1,138,193**	**3,238,385**
Liabilities						
Current liabilities:						
Accounts payable and other liabilities	38,020	24,583	20,455	16,540	38,948	138,546
Accrued payroll	-	-	983	-	361	1,344
Compensated absences	-	-	573	-	695	1,268
Accrued interest payable	7,942	3,046	1,260	-	1,550	13,798
Due to primary government	12,461	-	-	17,000	-	29,461
Deferred revenue	6,701	-	924	-	10,465	18,090
Capital leases	-	-	642	-	87	729
Bonds, notes payable and other obligations - current	7,548	11,815	102,607	-	19,900	141,870
Total current liabilities	**72,672**	**39,444**	**127,444**	**33,540**	**72,006**	**345,106**
Noncurrent liabilities:						
Compensated absences	-	-	-	-	167	167
Accrued interest payable	6,323	-	803	-	-	7,126
Deferred revenue	-	3,722	42	-	35,617	39,381
Capital leases	-	-	1,399	-	131	1,530
Bonds, notes payable and other obligations	22,772	247,264	768	-	912,124	1,182,928
Other noncurrent liabilities	4,317	-	-	-	26,925	31,242
Total noncurrent liabilities	**33,412**	**250,986**	**3,012**	**-**	**974,964**	**1,262,374**
Total liabilities	**106,084**	**290,430**	**130,456**	**33,540**	**1,046,970**	**1,607,480**
Net Assets						
Invested in capital assets, net of related debt	776,102	52,202	231,174	13,165	5,297	1,077,940
Restricted for:						
Debt service	6,753	-	-	-	-	6,753
Capital projects	-	-	-	-	3,397	3,397
Other purposes	-	71,049	4,739	185,012	66,858	327,658
Unrestricted	4,563	191,033	(1,803)	5,693	15,671	215,157
Total net assets	**$ 787,418**	**$ 314,284**	**$ 234,110**	**$ 203,870**	**$ 91,223**	**$ 1,630,905**

The notes to the financial statements are an integral part of this statement.

Combining Statement Of Revenues, Expenditures And Changes In Fund Balances

Nonmajor Component Units

Fiscal Year Ended June 30, 2004

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Regional Transit Authorities	Massachusetts Technology Park Corporation	Economic Development Entities	Total
Operating revenues and expenses:						
Charges for services	$ 19,079	$ 27,805	$ 77,567	$ 29,306	$ 34,008	$ 187,765
Other	160	(681)	24,280	1,005	49,962	74,726
Total operating revenues	**19,239**	**27,124**	**101,847**	**30,311**	**83,970**	**262,491**
Operating expenses:						
Cost of services	18,082	(1,811)	163,377	39,667	35,904	255,219
Administration costs	7,496	36,414	18,343	288	24,641	87,182
Depreciation	9,246	7,416	22,242	757	9,516	49,177
Total operating expenses	**34,824**	**42,019**	**203,962**	**40,712**	**70,061**	**391,578**
Operating income (loss)	**(15,585)**	**(14,895)**	**(102,115)**	**(10,401)**	**13,909**	**(129,087)**
Nonoperating revenues (expenses):						
Operating grants	26,007	13,706	78,843	35,697	38,060	192,313
Interest income	238	3,721	222	4,609	10,037	18,827
Interest expense	(8,605)	(6,884)	(1,633)	-	(30,570)	(47,692)
Other nonoperating revenue (expense)	(6,890)	79	3,474	(5,032)	(12,633)	(21,002)
Nonoperating revenues (expenses), net	**10,750**	**10,622**	**80,906**	**35,274**	**4,894**	**142,446**
Income (loss) before contributions and operating transfer	**(4,835)**	**(4,273)**	**(21,209)**	**24,873**	**18,803**	**13,359**
Capital contributions	179,249	34,860	32,362	-	1,871	248,342
Net income (loss) for the year	**174,414**	**30,587**	**11,153**	**24,873**	**20,674**	**261,701**
Net assets - beginning	613,004	283,697	222,957	178,997	70,549	1,369,204
Net assets - ending	**$ 787,418**	**$ 314,284**	**$ 234,110**	**$ 203,870**	**$ 91,223**	**$ 1,630,905**

The notes to the financial statements are an integral part of this statement.

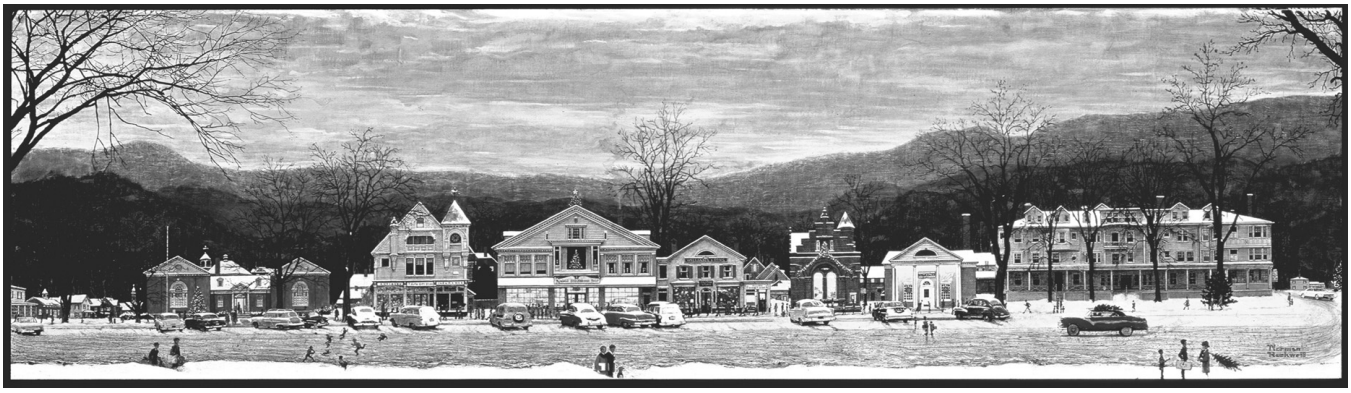
Willie Gillis: Food Package

Saturday Evening Post cover, October 4, 1941 ©1941 SEPS: Licensed by Curtis Publishing, Indianapolis, IN.

From his first cover in 1916 to his last in 1963, Norman Rockwell's work for *The Saturday Evening Post* charmed and delighted audiences. Norman Rockwell thought of his illustrated magazine covers as "independent storytelling pictures." His favorite kind of work, cover illustration, offered him the narrative freedom he so enjoyed.

Many of Norman Rockwell's *Saturday Evening Post* covers during the 1940s were inspired by life on the American home front during World War II including the unforgettable Rosie the Riveter. Among the other memorable images of that era were illustrations of the hapless but lovable infantryman, Willie Gillis.

Statistical Section



Home for Christmas

McCalls, December 1967, Licensed by Norman Rockwell Licensing, Niles, IL.

"Commonplaces never become tiresome. It is we who become tired when we cease to be curious and appreciative."

— Norman Rockwell

This very popular illustration, began by Rockwell in the 1950s, was not completed by him until the 1960s. To bring the picture up to date, he added a 1960s car to each end of Main Street.

Schedule of Net Assets by Component - Last Three Fiscal Years
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Statistical Section Narrative and Table of Contents

This part of the Commonwealth of Massachusetts' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

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These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective are only included from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted. Schedules included are:

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[1] Tax Year 2002 is the last "closed" tax year

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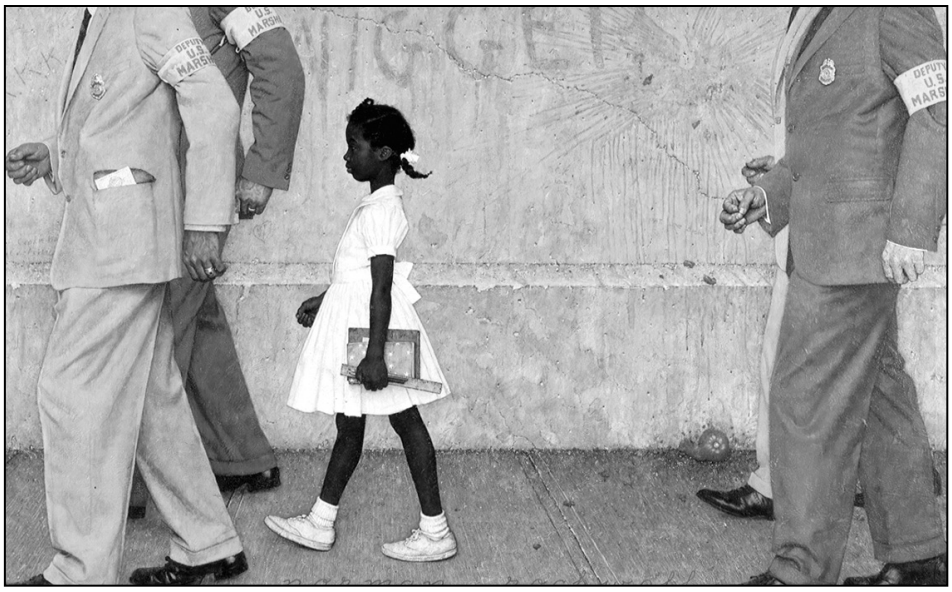


The Problem We All Live With

LOOK, January 14, 1964, Licensed by Norman Rockwell Licensing, Niles, IL.

The Problem We All Live With appeared in *Look* magazine in 1964. This image of a young student's courageous steps upon entering a newly desegregated school captures the essence of the civil rights movement. After the Supreme Court ordered an end to unequal and inferior education, similar scenes occurred for many years across America, in countless schools and colleges, large, small, rural, and urban.

On November 14, 1960, six-year-old Ruby Bridges became the unwitting symbol of the nation's struggle for civil rights and integration, as armed federal marshals escorted her past throngs of angry protestors to attend her first day of school. This summer, Ruby Bridges Hall, the first African American child to enter a formerly all-white school in New Orleans, Lousiana, was reunited with her former teacher at the opening of the Norman Rockwell Museum exhibition *Hometown Hero: Citizen of the World, Rockwell in Stockbridge*.

Schedule Of Net Assets by Component
Last Three Fiscal Years

(Amounts in thousands)

	2004	2003	2002
Governmental activities			
Invested in capital assets, net of related debt	$ 2,032,958	$ 3,901,007	$ 5,611,252
Restricted	3,348,175	1,153,792	2,694,315
Unrestricted	(11,722,584)	(13,160,340)	(15,721,092)
Total governmental activities net assets	**$ (6,341,451)**	**$ (8,105,541)**	**$ (7,415,525)**
Business - type activities			
Invested in capital assets, net of related debt	$ 1,132,637	$ 1,073,152	$ 1,032,022
Restricted	915,583	946,704	1,784,322
Unrestricted	434,007	321,523	243,605
Total business - type activities net assets	**$ 2,482,227**	**$ 2,341,379**	**$ 3,059,949**
Commonwealth net assets			
Invested in capital assets, net of related debt	$ 3,165,595	$ 4,974,159	$ 6,643,274
Restricted	4,263,758	2,100,496	4,478,637
Unrestricted	(11,288,577)	(12,838,817)	(15,477,487)
Total Commonwealth net assets	**$ (3,859,224)**	**$ (5,764,162)**	**$ (4,355,576)**

Changes in Net Assets
Last Three Fiscal Years

(Amounts in thousands)

	2004	2003	2002
EXPENSES			
Governmental Activities:			
General government	$ 2,016,145	$ 1,794,535	$ 1,297,875
Judiciary	538,434	589,858	566,689
Direct local aid	4,877,089	5,118,711	5,252,805
Medicaid	6,909,412	6,177,280	5,978,811
Group health insurance	778,072	732,252	770,832
Public assistance	1,019,068	1,017,997	1,029,645
Interest (unallocated)	788,908	739,463	687,817
Pension	241,845	354,802	237,472
Environmental and recreation	332,149	341,810	402,462
Communities and development	589,603	585,221	551,334
Health and human services including elder affairs	4,829,293	4,629,533	4,500,635
Transportation and construction	1,304,042	1,780,295	1,354,052
Education	1,211,256	1,385,040	1,835,755
Public safety	1,401,062	1,277,697	941,352
Consumer, Labor and Economic Development	379,631	419,792	382,917
Lottery	3,606,608	3,470,046	3,453,858
Depreciation (unallocated)	391,831	396,098	614,795
Total governmental activities	**$ 31,214,448**	**$ 30,810,430**	**$ 29,859,108**
Business - type Activities:			
Unemployment compensation	$ 2,461,293	$ 2,589,107	$ 2,183,100
Higher Education:			
University of Massachusetts	1,597,676	1,531,381	1,437,518
State Colleges	456,022	425,154	418,593
Community Colleges	525,179	523,403	508,895
Total business - type activities	**$ 5,040,170**	**$ 5,069,045**	**$ 4,548,107**
Total Commonwealth expenses	**$ 36,254,618**	**$ 35,879,475**	**$ 34,407,214**
REVENUES			
Program Revenues (all types consolidated):			
Governmental Activities:			
Charges for services	$ 7,739,588	$ 6,652,039	$ 6,473,988
Operating grants and contributions	8,017,469	7,129,712	7,078,110
Capital grants and contributions	602,449	508,235	338
Total governmental activities	**16,359,506**	**14,289,986**	**13,552,436**
Business - type Activities:			
Charges for services	2,692,468	1,943,194	877,389
Operating grants and contributions	1,376,666	1,249,768	869,848
Capital grants and contributions	-	-	77,161
Total business - type activities	**4,069,134**	**3,192,962**	**1,824,398**
Total Commonwealth program revenues	**$ 20,428,640**	**$ 17,482,948**	**$ 15,376,834**
General Revenues and Other Changes in Net Assets (all types consolidated):			
Governmental Activities:			
Taxes (all types)	$ 16,406,781	$ 15,161,687	$ 14,688,596
Investment earnings and miscellaneous	1,042,704	1,179,686	(367,695)
Transfers	(830,453)	(950,217)	(1,018,603)
Total governmental activities	**16,619,033**	**15,391,157**	**13,302,298**
Business - type Activities:			
Investment earnings and miscellaneous	181,719	207,296	965,901
Transfers	830,453	950,217	1,018,603
Total business - type activities	**1,012,172**	**1,157,513**	**1,984,504**
Total Commonwealth general revenues	**$ 17,631,205**	**$ 16,548,670**	**$ 15,286,802**
CHANGES IN NET ASSETS			
Governmental activities	$ 1,764,090	$ (1,129,287)	$ (3,004,374)
Business - type activities	41,136	(718,570)	(739,205)
Total Commonwealth	**$ 1,805,226**	**$ (1,847,857)**	**$ (3,743,578)**

Fund Balances, Governmental Funds
Last Three Fiscal Years

(Modified accrual basis of accounting)

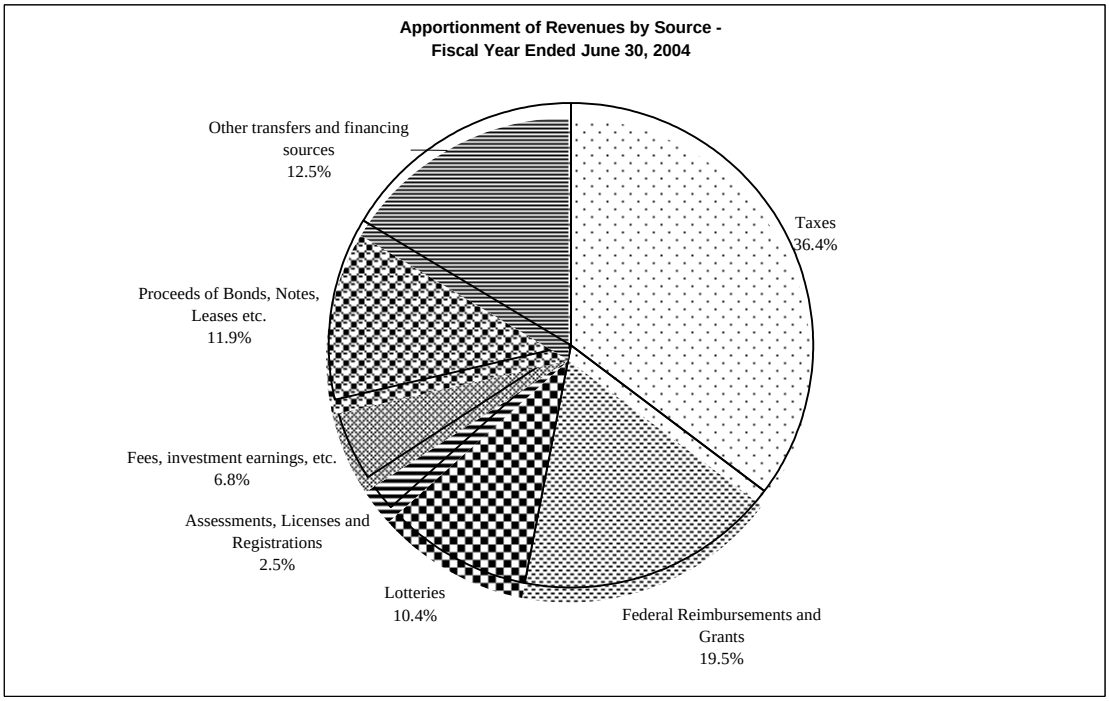
(Amounts in thousands)

	2004	2003	2002
General Fund			
Reserved	$ 1,482,978	$ 690,727	$ 967,724
Unreserved	1,014,469	619,190	1,407,669
Total general fund	**2,497,447**	**1,309,917**	**2,375,393**
All other governmental funds			
Reserved	1,947,897	1,474,983	1,726,590
Unreserved	(20,938)	(763,882)	(1,634,130)
Total all other governmental funds	**1,926,959**	**711,101**	**92,460**
Total governmental fund balances	**$ 4,424,406**	**$ 2,021,018**	**$ 2,467,853**

Ten-Year Schedule Of Revenues And Other Financing Sources
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2004	% Total	2003	% Total	2002	% Total	2001
Taxes	$ 16,133	36.4	$ 15,091	35.3	$ 14,428	39.6	$ 16,803
Federal reimbursements	6,284	14.2	5,522	12.9	5,267	14.4	4,716
Federal grants	2,336	5.3	2,112	4.9	1,812	5.0	1,644
Lotteries	4,605	10.4	4,422	10.3	4,425	12.1	4,136
Assessments	773	1.7	645	1.5	572	1.6	590
Motor vehicle licenses and registrations	376	0.8	383	0.9	326	0.9	311
Fees, investment earnings, etc	3,028	6.8	2,331	5.4	2,178	6.0	1,885
Proceeds of general obligation bonds	1,993	4.5	1,911	4.5	1,489	4.1	1,769
Proceeds of special obligation bonds	-	-	-	-	12	-	-
Proceeds of grant anticipation notes	-	-	-	-	-	-	600
Proceeds of refunding bonds	3,302	7.4	3,398	7.9	1,501	4.1	999
Proceeds of capital leases	11	0.0	-	-	10	-	31
Operating transfers	5,531	12.5	6,981	16.3	4,454	12.2	5,566
Other financing sources	-	-	-	-	3	-	206
Total revenues and other financing sources	$ 44,372	$ 100	$ 42,796	100.0	$ 36,477	100.0	$ 39,256

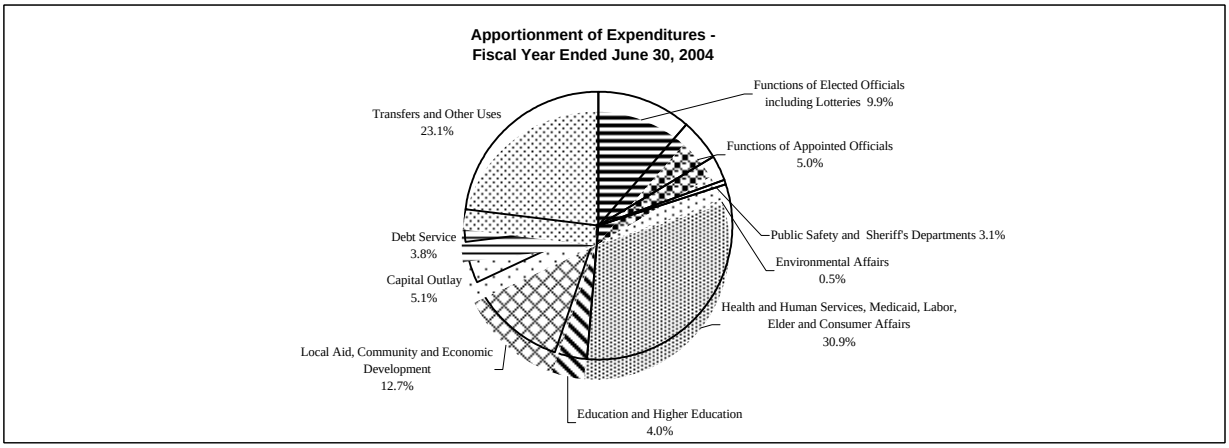

Apportionment of Revenues by Source -
Fiscal Year Ended June 30, 2004
Other transfers and financing sources 12.5%
Taxes 36.4%
Proceeds of Bonds, Notes, Leases etc. 11.9%
Fees, investment earnings, etc. 6.8%
Assessments, Licenses and Registrations 2.5%
Lotteries 10.4%
Federal Reimbursements and Grants 19.5%

% Total	2000	% Total	1999	% Total	1998	% Total	1997	% Total	1996	% Total	1995	% Total
42.8	$ 15,695	41.1	$ 14,321	43.0	$ 14,033	44.9	$ 13,030	47.7	$ 11,926	47.5	$ 11,262	45.9
12.0	4,496	11.8	4,213	12.7	4,385	14.0	4,124	15.1	3,861	15.4	4,174	17.0
4.2	1,565	4.1	1,456	4.4	1,470	4.7	1,457	5.3	1,482	5.9	1,187	4.8
10.5	3,914	10.3	3,570	10.7	3,392	10.9	3,375	12.3	3,201	12.8	2,957	12.0
1.5	462	1.2	546	1.6	514	1.6	552	2.0	595	2.4	572	2.3
0.8	285	0.7	281	0.8	295	0.9	295	1.1	263	1.0	307	1.3
4.8	1,776	4.7	1,433	4.3	1,394	4.5	930	3.4	1,110	4.4	1,154	4.7
4.5	1,762	4.6	1,015	3.0	1,347	4.3	899	3.3	940	3.7	810	3.3
-	-	-	-	-	100	0.3	-	-	147	0.6	-	-
1.5	602	1.6	319	1.0	-	-	-	-	-	-	-	-
2.5	-	-	499	1.5	862	2.8	723	2.6	-	-	514	2.1
0.1	9	0.0	9	0.1	15	0.1	62	0.2	26	0.1	18	0.1
14.2	7,502	19.7	4,555	13.7	3,338	10.7	1,920	7.0	1,551	6.2	1,534	6.3
0.5	106	0.3	1,056	3.2	104	0.3	6	-	-	-	49	0.2
100.0	$ 38,174	100.0	$ 33,273	100.0	$ 31,249	100.0	$ 27,373	100.0	$ 25,102	100.0	$ 24,538	100.0

Ten-Year Schedule Of Expenditures And Other Financing Uses By Secretariat
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2004	% Total	2003	% Total	2002	% Total	2001	% Total
Legislature	$ 51	0.1	$ 53	0.1	$ 60	0.2	$ 57	0.2
Judiciary	577	1.4	568	1.3	593	1.5	597	1.6
Inspector General	2	-	2	-	2	-	2	-
Governor and Lieutenant Governor	5	-	5	-	6	-	6	-
Secretary of the Commonwealth	43	0.1	39	0.1	36	0.1	45	0.1
Treasurer and Receiver-General	4,535	10.8	4,446	10.3	3,558	9.2	3,335	8.8
Auditor of the Commonwealth	16	-	16	-	16	-	15	-
Attorney General	52	0.1	55	0.1	62	0.2	36	0.1
Ethics Commission	1	-	1	-	1	-	2	-
District Attorney	86	0.2	85	0.2	89	0.2	86	0.2
Office of Campaign and Political Finance	1	0.0	1	0.0	5	-	1	-
Sheriff's Department	218	0.5	215	0.5	216	0.6	201	0.5
Disabled Persons Protection Commission	2	-	2	0.0	2	-	2	-
Board of Library Commissioners	6	-	6	-	10	-	11	-
Comptroller	8	-	8	-	8	-	8	-
Administration and finance	1,508	3.6	1,202	2.8	1,361	3.5	1,202	3.3
Environmental affairs	225	0.5	236	0.5	268	0.7	253	0.7
Communities and development	470	1.1	476	1.1	449	1.2	442	1.2
Health and human services	6,832	16.3	5,962	13.8	6,104	15.7	5,622	15.0
Transportation and construction	189	0.5	218	0.5	139	0.4	162	0.4
Education	1,587	3.8	1,546	3.6	1,506	3.9	1,492	3.9
Educational affairs	-	-	-	-	-	-	-	-
Higher education	99	0.2	111	0.3	119	0.3	136	0.4
Public safety	1,039	2.5	991	2.3	999	2.6	955	2.5
Economic development	-	-	29	0.1	32	0.1	51	0.1
Elder affairs	-	-	315	0.7	304	0.8	241	0.6
Consumer affairs	376	0.9	55	0.1	63	0.2	71	0.2
Labor	-	-	330	0.8	284	0.7	172	0.5
Medicaid	5,945	14.2	5,542	12.8	5,261	13.6	4,761	12.6
Pension	212	0.5	290	0.7	238	0.6	318	0.8
Direct local aid	4,861	11.6	5,103	11.8	5,231	13.5	5,012	13.2
Capital outlay:								
Local aid	16	-	15	0.0	21	0.1	34	0.1
Capital acquisition and construction	2,120	5.1	2,526	5.8	2,562	6.6	2,566	6.8
Debt service	1,605	3.8	1,467	3.4	1,382	3.6	1,408	3.7
Other financing uses:								
Payments to refunded bond escrow agent	2,833	6.8	3,398	7.9	1,277	3.3	999	2.6
Transfers	6,448	15.4	7,931	18.3	6,551	16.9	7,526	19.9
Total expenditures and other financing uses	$ 41,968	100.0	$ 43,245	100.0	$ 38,815	100.0	$ 37,827	100.0


Apportionment of Expenditures -
Fiscal Year Ended June 30, 2004
Functions of Elected Officials including Lotteries 9.9%
Transfers and Other Uses 23.1%
Functions of Appointed Officials 5.0%
Public Safety and Sheriff's Departments 3.1%
Debt Service 3.8%
Environmental Affairs 0.5%
Capital Outlay 5.1%
Health and Human Services, Medicaid, Labor, Elder and Consumer Affairs 30.9%
Local Aid, Community and Economic Development 12.7%
Education and Higher Education 4.0%

2000	% Total	1999	% Total	1998	% Total	1997	% Total	1996	% Total	1995	% Total
$ 51	0.1	$ 51	0.2	$ 51	0.2	$ 49	0.2	$ 49	0.2	$ 47	0.2
544	1.4	511	1.6	470	1.5	433	1.6	404	1.7	356	1.5
2	-	2	-	2	-	2	-	2	-	2	-
6	-	5	-	5	-	5	-	5	-	5	-
42	0.1	33	0.1	23	0.1	17	0.1	15	0.1	14	0.1
3,483	9.2	2,783	8.6	2,649	8.7	2,711	10.0	2,576	10.5	2,353	9.7
15	-	14	-	14	-	12	-	13	-	11	-
34	0.1	49	0.2	41	0.1	5	-	29	0.1	22	0.1
1	-	1	-	1	-	1	-	1	-	1	-
77	0.2	72	0.2	68	0.2	62	0.2	55	0.2	51	0.2
1	-	1	-	1	-	1	-	1	-	1	-
178	0.5	134	0.4	40	0.1	-	-	-	-	-	-
2	-	2	-	2	-	1	-	1	-	1	-
10	-	10	-	9	-	6	-	4	-	5	-
8	-	8	-	7	-	7	-	7	-	6	-
1,192	3.1	1,056	3.3	1,058	3.5	937	3.5	943	3.9	876	3.6
241	0.6	232	0.7	216	0.7	196	0.7	205	0.8	174	0.7
405	1.1	356	1.1	351	1.2	344	1.3	347	1.4	340	1.4
5,324	14.0	5,160	15.9	5,058	16.6	4,507	16.7	4,606	18.8	4,813	19.8
228	0.6	137	0.4	117	0.4	151	0.6	155	0.6	112	0.5
1,353	3.6	1,263	3.9	1,153	3.8	1,026	3.8	958	3.9	865	3.6
-	-	-	-	-	-	-	-	14	0.1	6	-
111	0.3	97	0.3	82	0.3	90	0.3	80	0.3	75	0.3
879	2.3	860	2.6	853	2.8	860	3.2	841	3.4	732	3.0
38	0.1	57	0.2	31	0.1	33	0.1	111	0.5	199	0.8
217	0.6	197	0.6	179	0.6	174	0.6	155	0.6	161	0.7
70	0.2	68	0.2	57	0.2	37	0.1	35	0.1	34	0.1
188	0.5	166	0.5	186	0.6	189	0.7	121	0.5	24	0.1
4,381	11.5	3,829	11.8	3,638	12.0	3,497	13.0	3,241	13.3	3,252	13.4
398	1.0	324	1.0	414	1.4	413	1.5	382	1.6	414	1.7
4,717	12.4	4,405	13.6	4,047	13.3	3,677	13.6	3,351	13.7	3,073	12.6
47	0.1	73	0.2	102	0.3	181	0.7	116	0.5	94	0.4
2,469	6.5	2,602	8.0	2,532	8.3	2,051	7.6	1,673	6.8	1,698	7.0
1,237	3.3	1,212	3.7	1,215	4.0	1,278	4.7	1,192	4.9	1,234	5.1
-	-	499	1.5	862	2.8	723	2.7	-	-	514	2.1
10,073	26.5	6,193	19.1	4,883	16.1	3,311	12.3	2,753	11.3	2,732	11.2
$ 38,022	100.0	$ 32,462	100.0	$ 30,417	100.0	$ 26,987	100.0	$ 24,441	100.0	$ 24,297	100.0

Personal Income by Industry
Last Ten Calendar Years

(Amounts in millions)

	2003	2002	2001	2000
Total personal income	**$ 253,528**	**$ 249,889**	**$ 249,243**	**$ 240,209**
Farm earnings	111	97	107	116
Nonfarm earnings	203,659	199,402	201,162	195,723
Private earnings	**180,248**	**176,504**	**179,116**	**174,388**
Agricultural services, forestry, fishing	437	410	400	960
Mining	332	298	360	141
Construction	11,808	11,779	11,463	10,097
Manufacturing	**25,616**	**25,519**	**26,675**	**31,272**
Durable goods	18,192	18,346	19,685	21,622
Nondurable goods	7,424	7,173	6,989	9,649
Transportation and utilities	5,206	5,140	5,238	9,506
Wholesale trade	10,931	10,350	10,806	13,411
Retail trade	12,047	11,660	11,358	15,308
Services	113,871	111,346	112,815	93,694
Government	**23,411**	**22,898**	**22,046**	**21,335**
Federal, civilian	4,223	4,171	4,023	3,894
Military	661	597	562	556
State and local	18,527	18,130	17,461	16,885
Highest Income Tax Rate	5.3%	5.3%	5.6%	5.85%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue

1999	1998	1997	1996	1995	1994
$ 216,221	**$ 203,987**	**$ 189,885**	**$ 178,797**	**$ 168,623**	**$ 160,322**
106	107	169	169	148	151
175,021	161,510	149,449	140,371	132,142	125,587
154,549	**142,198**	**130,778**	**122,290**	**114,783**	**108,727**
871	769	711	643	600	580
136	110	93	75	75	75
8,886	7,839	6,889	6,252	5,810	5,605
27,798	**26,378**	**25,267**	**24,027**	**23,325**	**22,707**
18,777	17,749	17,033	16,202	15,715	15,336
9,021	8,629	8,234	7,825	7,611	7,371
8,542	7,952	7,491	7,346	7,057	7,105
12,378	11,031	9,957	9,329	8,771	8,137
14,231	13,397	12,393	12,040	11,324	10,848
81,706	74,721	67,976	62,580	57,821	53,670
20,472	**19,312**	**18,671**	**18,081**	**17,358**	**16,860**
3,766	3,545	3,547	3,463	3,438	3,380
534	532	543	575	607	663
16,172	15,235	14,582	14,043	13,313	12,817
5.95%	5.95%	5.95%	5.95%	5.95%	5.95%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Tax Years 2002 and 1992

(Amounts, except income level are in thousands)

Tax year 2002

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	390,959	12%	$ 3,996,936	52%
$75,001 - $100,000	267,206	8%	1,008,595	13%
$50,001 - $75,000	459,053	14%	1,183,587	15%
$25,001 - $50,000	827,075	25%	1,156,317	15%
$10,001 - $25,000	686,444	21%	327,397	4%
$10,000 and lower	677,781	20%	24,628	1%
Total	3,308,518	100%	$ 7,697,460	100%

Tax year 1992

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
$100,001 and higher	120,827	4%	$ 1,573,635	31%
$75,001 - $100,000	126,771	4%	578,044	11%
$50,001 - $75,000	338,707	12%	1,045,710	21%
$25,001 - $50,000	762,020	27%	1,316,342	26%
$10,001 - $25,000	780,544	28%	526,648	10%
$10,000 and lower	690,355	25%	27,206	1%
Total	2,819,224	100%	$ 5,067,585	100%

Source: Massachusetts Department of Revenue - data is from last closed tax years.

Ten-Year Schedule Of Per Capita General Long-Term Bonded Debt

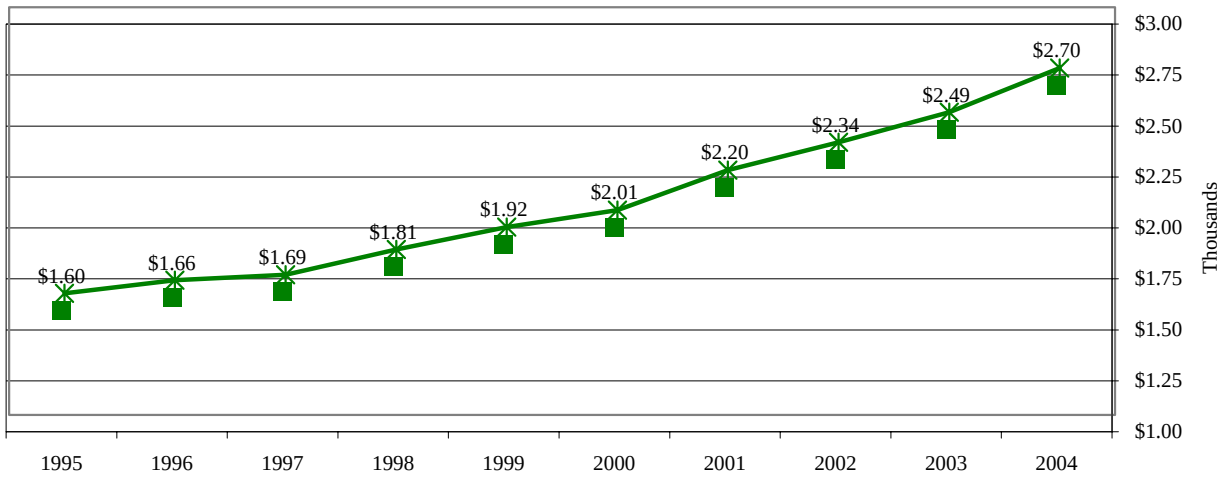
(Amounts in thousands)

Fiscal year ended June 30	Massachusetts Resident Population [1]	Total long-term bonds and notes payable	Per capita long-term debt
2004	6,433	$ 17,382,172	$ 2.70
2003	6,422	15,962,506	2.49
2002	6,400	14,955,135	2.34
2001	6,362	13,999,454	2.20
2000	6,175	12,383,101	2.01
1999	6,144	11,808,461	1.92
1998	6,115	11,078,603	1.81
1997	6,085	10,271,294	1.69
1996	6,062	10,065,578	1.66
1995	6,031	9,628,466	1.60

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported a 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.)*

Per Capita Direct Commonwealth Debt 1995 - 2004

(thousands)

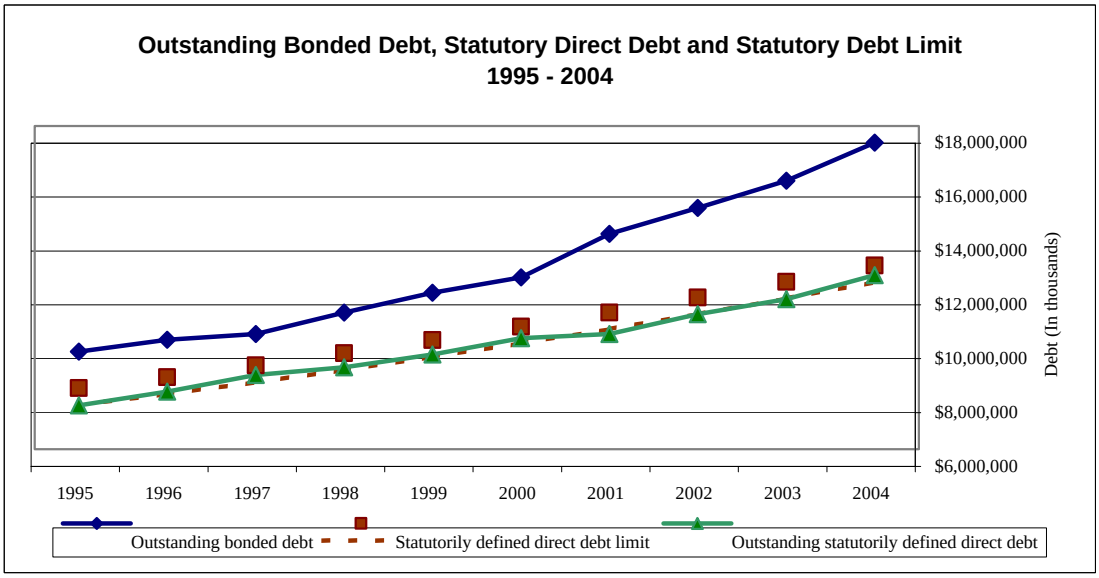


Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2004	2003	2002	2001
Balance as of June 30	$ 17,382,172	$ 15,962,506	$ 14,955,135	$ 13,999,454
Less amounts excluded by statute:				
Central artery project bonds principal	(1,066,638)	(1,386,869)	(838,193)	(999,995)
Chapter 5 of the Acts of 1992 bonds principal	-	(10,600)	(22,043)	(71,054)
County debt assumed	(675)	(855)	(1,115)	(1,375)
Premium / (Discount) and issuance costs	1,120	(68,718)	(181,910)	(282,829)
Fiscal recovery bonds principal	-	-	-	-
Grant anticipation notes (GANs) principal **(1)**	(1,908,015)	(1,500,000)	(1,500,000)	(1,500,000)
MBTA forward funding bonds principal	(601,027)	(680,869)	(625,000)	(325,000)
Special obligation bonds principal **(1)**	(1,347,882)	(748,124)	(772,812)	(539,242)
Outstanding statutorily defined direct debt	$ 12,459,055	$ 11,566,472	$ 11,014,062	$ 10,279,959
Statutorily defined direct debt limit	$ 12,822,414	$ 12,211,823	$ 11,630,307	$ 11,076,483
Debt margin (Debt limit less direct debt)	$ 363,359	$ 645,352	$ 616,245	$ 796,524
Debt margin as a percentage of direct debt limit	2.83%	5.28%	5.30%	7.19%

(1) Inclusive of Crossover Refunding Amounts



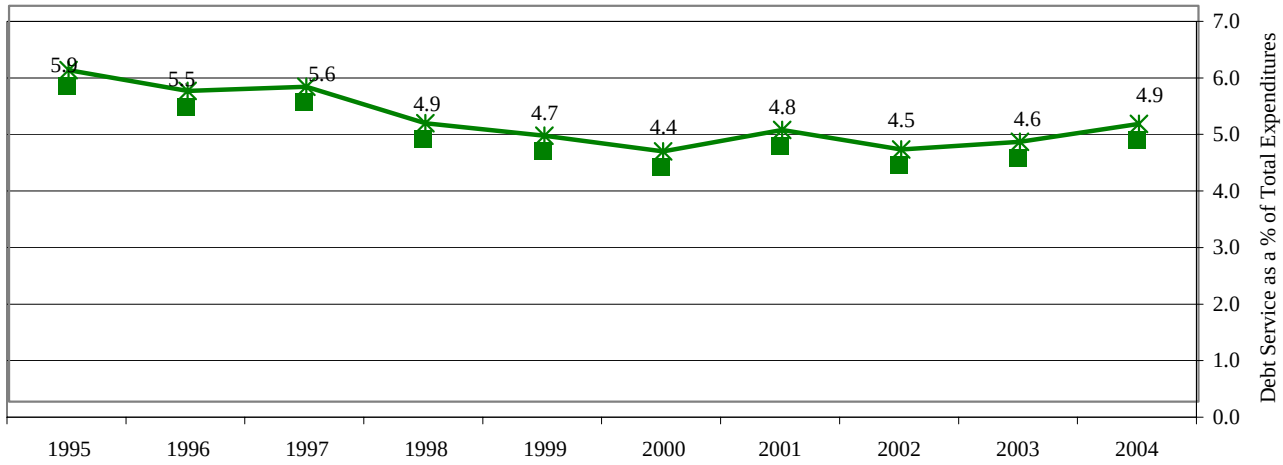
2000	1999	1998	1997	1996	1995
$ 12,383,101	$ 11,808,461	$ 11,078,603	$ 10,271,294	$ 10,065,578	$ 9,628,466
-	-	-	-	-	-
(114,761)	(130,069)	(144,509)	(144,509)	(229,665)	(229,665)
(2,105)	(2,345)	(1,525)	-	-	-
(358,938)	(677,326)	(702,014)	(735,393)	(811,978)	(802,711)
-	-	-	(126,470)	(356,850)	(581,668)
(899,991)	(899,991)	(580,557)	-	-	-
(325,000)	-	-	-	-	-
(561,335)	(582,410)	(602,531)	(512,589)	(526,980)	(388,960)
$ 10,120,971	$ 9,516,320	$ 9,047,467	$ 8,752,333	$ 8,140,106	$ 7,625,462
$ 10,549,032	$ 10,046,697	$ 9,568,283	$ 9,112,650	$ 8,678,715	$ 8,265,443
$ 428,061	$ 530,377	$ 520,816	$ 360,317	$ 538,609	$ 639,981
4.06%	5.28%	5.44%	3.95%	6.21%	7.74%

Ten-Year Schedule Of Percentage Of Annual Debt Service Expenditures For General Bonded Debt To Total Expenditures - Fund Perspective All Governmental Fund Types

(Amounts in millions)

Fiscal year ended June 30	Debt service	Total expenditures	Ratio
2004	$ 1,605	$ 32,687	4.9
2003	1,467	31,915	4.6
2002	1,382	30,987	4.5
2001	1,408	29,302	4.8
2000	1,237	27,949	4.4
1999	1,212	25,772	4.7
1998	1,215	24,672	4.9
1997	1,278	22,953	5.6
1996	1,192	21,688	5.5
1995	1,234	21,051	5.9

Debt Service to Total Expenditures Ratio 1995 - 2004



Component Units Revenue Bond Coverage
For The Last Ten Fiscal Years

(Amounts in thousands)

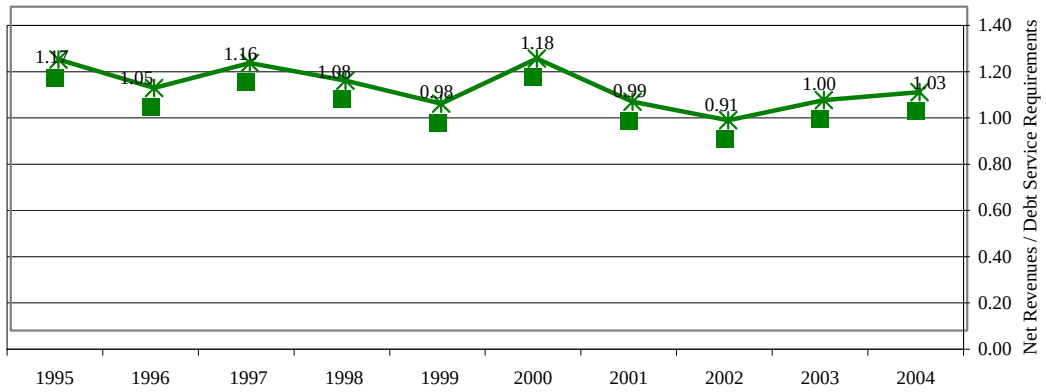
Fiscal year ended June 30	Net revenues [1]	Debt service requirements [2]	Coverage Ratio
2004	$ 700,677	$ 679,457	1.03
2003	663,234	665,538	1.00
2002	716,951	789,318	0.91
2001	520,850	526,605	0.99
2000	600,812	510,876	1.18
1999	393,785	401,406	0.98
1998	372,672	344,884	1.08
1997	328,608	283,975	1.16
1996	288,599	275,068	1.05
1995	272,308	232,473	1.17

(1) Net revenues represent the regular recurring operating income (loss) plus operating grants, transfers and depreciation of only those Authorities with revenue bonds outstanding.

(2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

Source: Office of the Comptroller

Component Units Revenue Bond Coverage 1995 - 2004



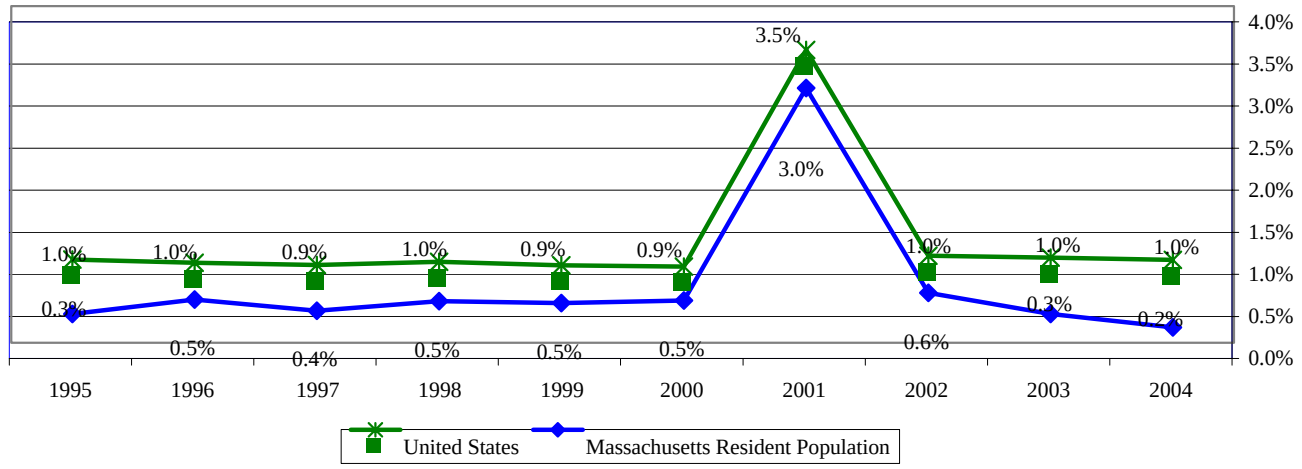
Ten-Year Schedule Of Massachusetts And United States Resident Population

(Amounts in thousands)

Year	United States	% Change	Massachusetts Resident Population [1]	% Change	Massachusetts as % of U.S.
2004	290,810	1.0%	6,433	0.2%	2.2%
2003	287,974	1.0%	6,422	0.3%	2.2%
2002	285,094	1.0%	6,400	0.6%	2.2%
2001	282,178	3.5%	6,362	3.0%	2.3%
2000	272,691	0.9%	6,175	0.5%	2.3%
1999	270,248	0.9%	6,144	0.5%	2.3%
1998	267,784	1.0%	6,115	0.5%	2.3%
1997	265,229	0.9%	6,085	0.4%	2.3%
1996	262,803	1.0%	6,062	0.5%	2.3%
1995	260,327	1.0%	6,031	0.3%	2.3%

(1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.). FY01 reflects census 2000 data.*

Massachusetts and United States Estimated Year- to- Year Population Change
1995 - 2004

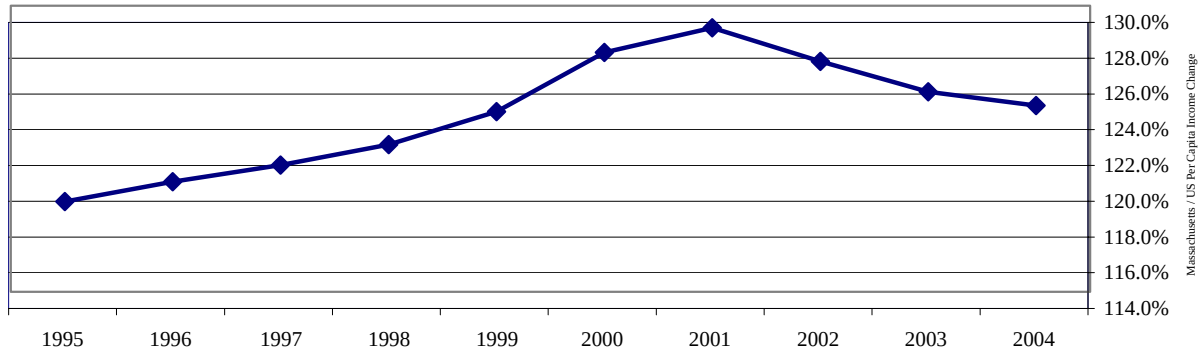


Ten-Year Schedule Of Massachusetts And United States Resident Per Capita Net Income

Year	United States (1)	% Change	Massachusetts (1)	% Change	Massachusetts as % of U.S.
2004	$ 32,892	5.2%	$ 40,924	4.5%	124.4%
2003	31,268	2.4%	39,146	1.0%	125.2%
2002	30,531	1.3%	38,739	-0.2%	126.9%
2001	30,130	2.7%	38,797	3.8%	128.8%
2000	29,342	3.8%	37,378	6.5%	127.4%
1999	28,278	3.5%	35,087	5.1%	124.1%
1998	27,322	5.6%	33,394	6.6%	122.2%
1997	25,874	5.0%	31,332	5.8%	121.1%
1996	24,651	4.6%	29,618	5.6%	120.1%
1995	23,562	4.3%	28,051	4.5%	119.1%

Source: - United States Department of Commerce, Bureau of Economic Analysis, 2004 of June 30, 2004. 2002 restated by BEA. (1) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of 7/1 of the previous year. Source: - HTTP://www.fedstats.gov (US Census Bureau.)

Massachusetts vs. United States Year- to- Year Per Capita Net Income Change
1995 - 2004



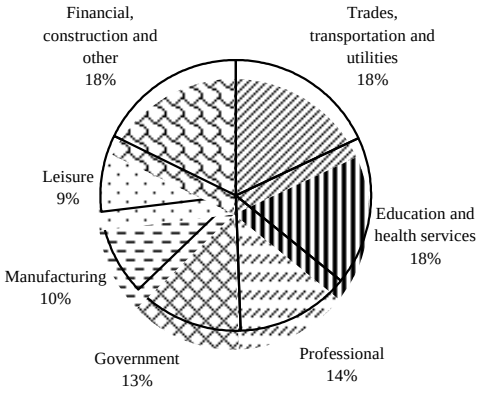
Nonagricultural Employment By Sector and Industry
In Massachusetts And The United States For 2004

(Amounts in thousands)

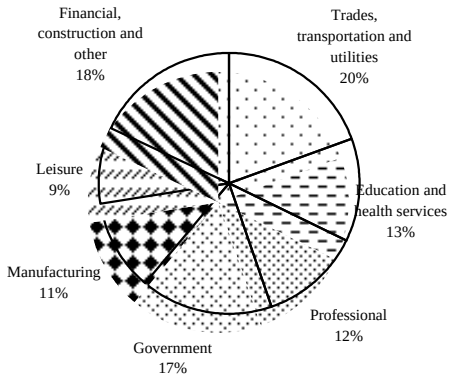
Type of industry	Massachusetts	% of MA Total	United States	% of U.S. Total	MA % vs. U.S. %
Manufacturing - Durable and nondurable goods	324	10.2%	14,378	11.0%	93.3%
Non-manufacturing:					
Construction	140	4.4%	6,911	5.3%	83.8%
Transportation, wholesale and retail trade, warehousing and public utilities	566	17.8%	25,509	19.4%	91.8%
Education and health services	576	18.2%	16,930	12.9%	140.8%
Financial activities	222	7.0%	8,038	6.1%	114.3%
Information activities	88	2.8%	3,178	2.4%	114.6%
Leisure and hospitality services	293	9.2%	12,340	9.4%	98.3%
Professional and business services	433	13.6%	16,468	12.5%	108.8%
Other services	118	3.7%	6,010	4.6%	81.5%
Federal, state and local government	412	13.0%	21,539	16.4%	79.2%
Total Non-manufacturing	**2,849**	**89.8%**	**116,923**	**89.0%**	**100.8%**
Total	**3,173**	**100.0%**	**131,301**	**100.0%**	

Source: - Federal Reserve Bank of Boston - Bureau of Labor Statistics, August 2004 for June 2004.

Massachusetts Employment by Industry June 2004



United States Employment by Industry June 2004



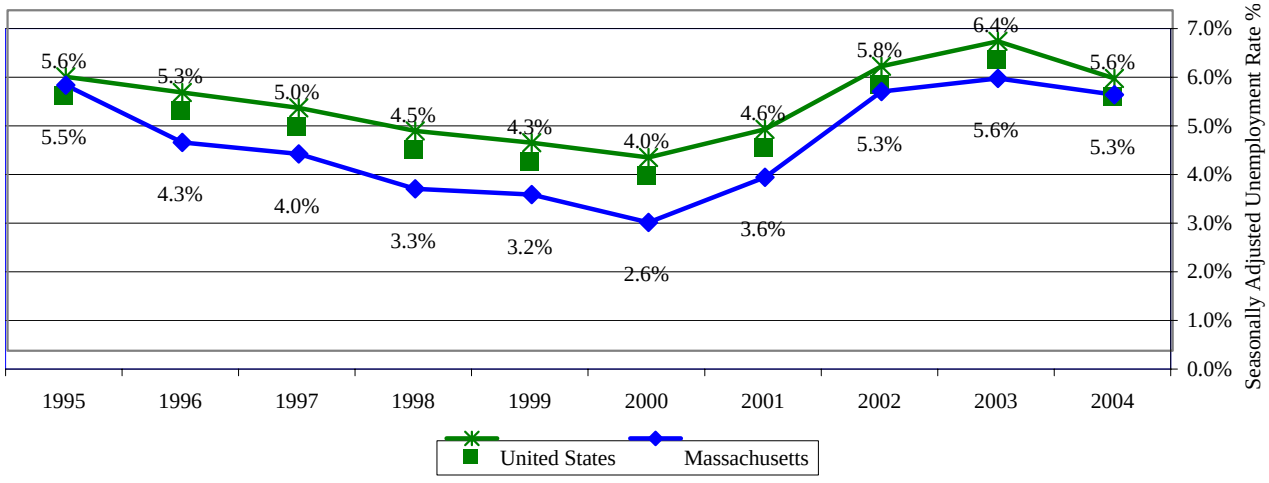
Ten-Year Schedule Of Annual Average Civilian Labor Force, Unemployment And Unemployment Rates For Massachusetts And The United States

(Amounts in thousands)

	Massachusetts			United States			
Year	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	Massachusetts Rate as % of U.S. Rate
2004	3,409	179	5.3%	147,279	8,248	5.6%	94.0%
2003	3,447	193	5.6%	147,096	9,358	6.4%	88.0%
2002	3,488	186	5.3%	144,852	8,469	5.8%	91.1%
2001	3,389	121	3.6%	143,395	6,526	4.6%	78.4%
2000	3,313	87	2.6%	142,624	5,671	4.0%	66.4%
1999	3,286	105	3.2%	139,383	5,958	4.3%	75.0%
1998	3,271	109	3.3%	137,455	6,212	4.5%	73.7%
1997	3,268	132	4.0%	136,211	6,799	5.0%	81.1%
1996	3,167	136	4.3%	133,697	7,095	5.3%	80.7%
1995	3,160	172	5.5%	131,949	7,427	5.6%	97.0%

Source: - Federal Bureau of Labor Statistics, September 2004. Amounts and rates previous from 1998 through 2002 have been restated for all data due to new benchmarking by the Bureau of Labor Statistics during 2001 to 2003. The differential between average labor force and nonagricultural employment is agricultural employment. Seasonally adjusted.

Massachusetts and United States Unemployment Rates
Seasonally Adjusted June 1995 - June 2004



Largest Private Sector Massachusetts Employers
(Alphabetical Order)

Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital
Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University
Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals
FleetBoston Financial Corp. **(1)**	Boston	Banking
Friendly Ice Cream Corporation	Wilbraham	Restaurants
General Hospital Corporation	Boston	Hospital
Massachusetts Institute of Technology	Cambridge	University
New England Medical Center	Boston	Hospital
President and Fellows of Harvard College	Boston	University
Raytheon Company	Lexington	Electronics / Defense
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital
Tufts University	Medford	University
UMASS Memorial Medical Center, Inc.	Worcester	Hospital
Verizon New England, Inc.	Boston	Telecommunications

Sources: - Massachusetts Department of Employment and Training - March 2004 survey. In addition, Home Depot USA, Inc., S&S Credit Company, Inc., The May Department Stores Company, United Parcel Service, Inc and Wal-Mart Associates, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York.
(1) *FleetBoston Financial has been merged with the Bank of America as of April 2004. Therefore, for FY2005's listing, it will not appear.*

Standard and Poors 500 Companies Headquartered in Massachusetts

Company	Stock Symbol	Headquarters	Product or Service	Worldwide Employees	Latest Audited Revenues ($millions)	Fortune 500 Rank 2004	Fortune 500 Rank 2003
Raytheon Company (New)	RTN	Lexington	Aerospace & Defense	77,700	$ 18,109	107	105
FleetBoston Financial Corp. **(1)**	FBF	Boston	Financials	47,500	14,362	140	115
TJX Companies Inc.	TJX	Framingham	Apparel Retail	105,000	13,328	148	161
Staples Inc.	SPLS	Framingham	Specialty Stores	60,633	13,181	152	165
John Hancock Financial Services	JHF	Boston	Diversified Financial Services	7,974	10,071	192	208
Gillette Co.	G	Boston	Personal Products	29,400	9,252	215	218
EMC Corporation	EMC	Hopkinton	Computer Storage & Peripherals	20,000	6,237	299	308
State Street Bank and Trust Company	STT	Boston	Diversified Financial Services	19,850	5,463	330	340
Reebok International	RBK	Canton	Footwear	7,760	3,485	477	483
Boston Scientific	BSX	Natick	Health Care Equipment	15,000	3,476	478	-
Thermo Electron	TMO	Waltham	Electronic Equipment & Instruments	10,800	2,097	-	-
Analog Devices	ADI	Norwood	Semiconductors	8,400	2,047	-	-
PerkinElmer, Inc.	PKI	Wellesley	Electronic Equipment & Instruments	12,100	1,541	-	-
Teradyne, Inc.	TER	Boston	Semiconductor Equipment	6,100	1,353	-	-
Waters Corporation	WAT	Milford	Electronic Equipment & Instruments	3,900	958	-	-
Millipore Corp.	MIL	Bedford	Electronic Equipment & Instruments	4,300	800	-	-
Biogen IDEC Inc.	BGEN	Cambridge	Biotechnology	3,727	679	-	-
Parametric Technology	PMTC	Needham	Application Software	3,500	657	-	-

Sources: - Standard and Poors (from Standardandpoors.com) , the Boston Globe (May 18, 2004 section F) and Fortune Magazine (from fortune.com). Massachusetts Mutual Life Insurance, Liberty Mutual Insurance Group, BJ's Wholesale Club and Allmerica Financial are part of the Fortune 500, but are not part of the Standard & Poors 500.

(1) *FleetBoston Financial has been merged with the Bank of America as of April 2004. Therefore, for FY2005's listing, it will not appear.*

Full Time Equivalent Employees
By Function / Program
Last Nine Years

Functions / Programs	2004	2003	2002	2001
General Government	5,449	5,644	5,724	6,261
Judiciary	7,099	7,198	7,393	8,159
Environmental and recreation	2,612	2,814	2,949	3,161
Health and human services	22,229	23,087	23,269	25,143
Transportation and construction	1,794	1,843	1,820	2,094
Education	569	579	545	530
Public safety	13,578	13,964	14,446	14,752
Consumer	2,300	2,322	2,382	2,468
Higher Education:				
University of Massachusetts	12,356	12,513	11,821	12,572
State colleges	3,914	3,957	3,812	4,026
Community colleges	4,219	4,408	4,340	4,720
Totals	**76,120**	**78,328**	**78,501**	**83,886**
Percentage Change	**-3%**	**0%**	**-6%**	**1%**

Source: Office of the State Comptroller. FY 2001 to FY 2004, University of Massachusetts reported by the University. Measurement date is the closest pay period end to June 30.

2000	1999	1998	1997	1996	Change - 2004 from 1996
6,286	6,034	5,853	5,758	5,442	0%
8,054	7,836	7,313	6,790	6,305	13%
3,147	3,100	3,001	2,986	2,961	-12%
25,215	24,899	24,817	24,818	25,057	-11%
2,171	2,223	2,283	2,279	2,350	-24%
516	491	471	442	488	17%
14,430	13,703	11,784	10,835	10,712	27%
2,504	2,506	2,504	2,583	2,663	-14%
12,010	12,467	13,996	13,687	13,308	-7%
3,981	3,914	3,883	3,824	3,737	5%
4,580	4,470	4,268	4,102	4,005	5%
82,894	**81,642**	**80,172**	**78,104**	**77,028**	**-1%**
2%	**2%**	**3%**	**1%**		

Massachusetts Road Inventory
Calendar Year End, Lane Miles by Type
Last Eight Calendar Years

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2003	3,186	13,513	10,950	42,654	70,295	0.00%	68.7%	31.3%
2002	3,186	13,513	10,950	42,654	70,295	0.21%	68.7%	31.3%
2001	3,186	13,478	10,946	42,539	70,149	0.28%	68.7%	31.3%
2000	3,184	13,498	10,936	42,339	69,956	0.18%	68.7%	31.3%
1999	3,182	13,509	10,935	42,207	69,833	0.20%	68.7%	31.3%
1998	3,173	13,536	10,935	42,049	69,694	0.75%	68.8%	31.2%
1997	3,173	13,515	10,929	41,560	69,178	1.02%	68.7%	31.3%
1996	3,172	13,495	10,941	40,874	68,481	-	68.7%	31.3%

Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports. Exclusive of shoulders. 2003 was not updated from 2002. 2004's annual survey is to expected to be released in January 2005. 1995 and before is unavailable, but is not expected to be materially different from 1996 and forward.

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Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years

Functions / Programs	Survey Year 2004	Survey Year 2003	Survey Year 2002	Survey Year 2001	Survey Year 2000
General Government:					
Total Acreage……	2,486	3,137	3,750	4,142	3,476
Number of Improvements…	306	263	352	469	395
Gross square footage……	8,315,791	8,428,905	10,124,543	12,346,526	8,802,821
Judiciary:					
Total Acreage……	114	113	113	113	109
Number of Improvements…	68	68	68	62	57
Gross square footage……	4,884,206	4,952,821	4,887,321	4,582,299	4,082,355
Environmental and recreation:					
Total Acreage……	553,128	539,708	511,732	494,093	482,854
Number of Improvements…	1,973	1,960	2,042	1,727	1,713
Gross square footage……	6,956,441	6,881,350	6,965,507	7,101,935	6,933,956
Economic development:					
Total Acreage……	2	2	2	2	1
Number of Improvements…	6	6	6	5	6
Gross square footage……	76,812	76,812	76,812	47,500	57,500
Health and Human Services:					
Total Acreage……	7,284	7,561	7,784	7,779	8,028
Number of Improvements…	997	1,068	1,110	854	877
Gross square footage……	12,493,551	13,339,508	13,669,358	12,446,222	12,839,042
Transportation and construction:					
Total Acreage……	7,513	7,736	7,484	7,562	7,603
Number of Improvements…	909	909	965	1,019	1,026
Gross square footage……	4,821,599	4,823,279	4,954,627	4,989,788	5,149,089
Education:					
Total Acreage……	234	233	-	-	-
Number of Improvements…	44	43	-	-	-
Gross square footage……	272,352	272,352	-	-	-
Public Safety:					
Total Acreage……	17,454	17,485	17,391	17,366	17,371
Number of Improvements…	1,037	1,069	1,113	584	598
Gross square footage……	13,131,414	13,563,676	13,630,934	7,876,300	11,165,654
Higher Education:					
Total Acreage……	7,163	7,169	7,353	6,929	6,920
Number of Improvements…	939	935	990	721	759
Gross square footage……	30,728,820	30,267,370	30,975,993	26,420,404	28,923,271
Totals for Commonwealth:					
Total Acreage……	**595,378**	**583,144**	**555,609**	**537,985**	**526,363**
Number of Improvements	**6,279**	**6,321**	**6,646**	**5,441**	**5,431**
Gross square footage……	**81,680,986**	**82,606,073**	**85,285,095**	**75,810,974**	**77,953,688**
Percentage Change for Commonwealth:					
Total Acreage……	**2.1%**	**5.0%**	**3.3%**	**2.2%**	**2.1%**
Number of Improvements	**-0.7%**	**-4.9%**	**22.1%**	**0.2%**	**0.4%**
Gross square footage……	**-1.1%**	**-3.1%**	**12.5%**	**-2.7%**	**5.6%**

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. 2002's large change was due to the absorption of county properties.

Survey Year 1999	Survey Year 1998	Survey Year 1997	Survey Year 1996	Survey Year 1995
3,289	3,860	3,874	3,151	3,178
387	459	458	359	476
7,998,555	10,295,460	10,226,361	8,169,955	7,857,465
76	69	40	40	40
57	38	35	25	27
4,178,621	2,579,591	2,366,581	1,483,048	1,504,695
472,313	455,770	449,005	423,514	419,888
1,723	1,728	1,719	1,709	1,804
6,937,756	6,932,602	6,905,230	6,805,183	6,532,054
1	1	1	1	10
6	6	6	6	7
57,500	57,500	57,500	57,500	649,500
8,017	7,995	8,286	9,067	8,991
877	872	872	966	1,046
12,839,042	12,780,974	12,785,089	13,202,838	14,321,909
7,630	7,531	7,503	8,629	8,660
1,026	1,026	1,024	1,041	913
5,149,089	5,148,489	5,148,489	6,579,598	6,202,309
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
17,171	17,143	17,305	17,337	17,306
579	655	640	614	634
7,811,970	8,108,448	7,807,787	7,753,546	7,715,947
6,871	6,855	6,805	6,805	6,805
754	754	747	748	788
28,881,383	28,881,383	28,592,524	28,485,083	29,243,245
515,368	**499,226**	**492,820**	**468,545**	**464,877**
5,409	**5,538**	**5,501**	**5,468**	**5,695**
73,853,916	**74,784,447**	**73,889,561**	**72,536,751**	**74,027,124**
3.2%	**1.3%**	**5.2%**	**0.8%**	**4.0%**
-2.3%	**0.7%**	**0.6%**	**-4.0%**	**7.8%**
-1.2%	**1.2%**	**1.9%**	**-2.0%**	**17.4%**

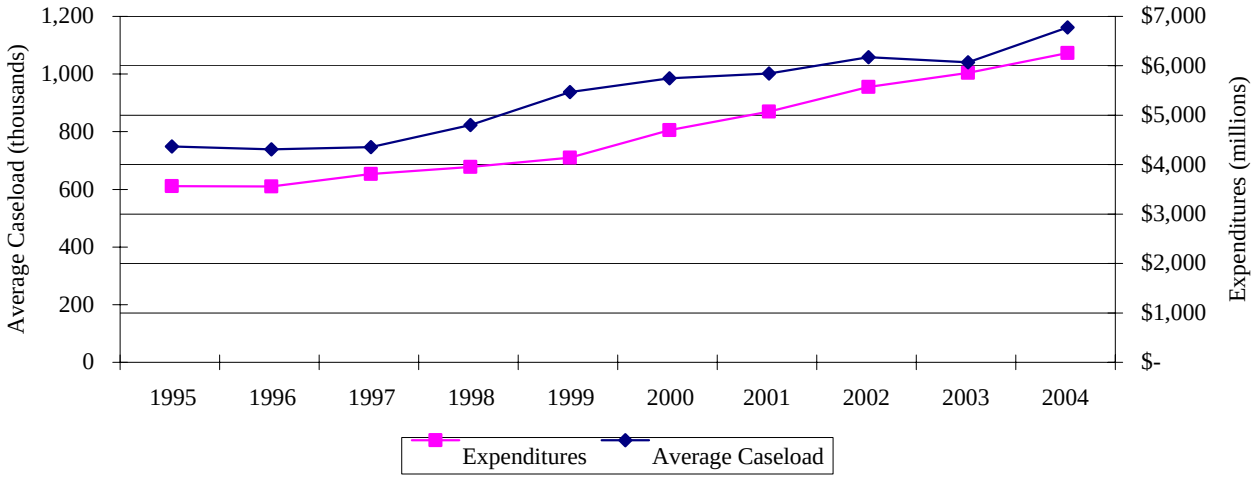
Average Annual Medicaid Caseload and Medicaid Expenditures - Fund Perspective - Last Ten Fiscal Years

(Caseload amounts in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2004	1,108	$ 5,946	$ 5,368
2003	987	5,542	5,617
2002	1,005	5,261	5,236
2001	948	4,761	5,020
2000	931	4,381	4,703
1999	883	3,829	4,336
1998	770	3,638	4,728
1997	693	3,497	5,050
1996	685	3,241	4,728
1995	695	3,252	4,678

Source: Executive Office for Health and Human Services. 2004 average annual caseload is estimated.

Average Annual Caseload and Medicaid Expenditures 1995 - 2004



Calculation of Transfers: Stabilization Fund

June 30, 2004
(Amounts in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c, as amended most recently by Chapter 140 of the Acts of 2003, Sections 111 and 136. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

Part 1:	Undesignated fund balance / (deficit) in the Operating Funds, unless specifically exempted by General Laws:		
	General Fund		$ 1,497,397
	Highway Fund		(716,533)
	Workforce Training Fund		10,511
	Federal Medicaid Assistance Percentage Escrow Fund		99,120
	Massachusetts Tourism Fund		14,900
	Children's and Seniors' Health Care Assistance Fund		(161,665)
	Consolidated undesignated fund balance / (deficit) in the Operating Funds		$ 743,730
	Less: Amount available to carry forward to fiscal year 2005 equivalent to 0.5% of Total Tax Revenue per Schedule B		80,273
	Net Consolidated Net Surplus / (deficit) to be deposited into the Stabilization Fund per Chapter 26 of the Acts of 2003, Section 164		**$ 663,457**
Part 2:	Calculation of Transfers to the Stabilization Fund, except for funds specifically exempted by General Laws:		
	From the General Fund		$ 538,926
	From the Workforce Training Fund		10,511
	From the Federal Medicaid Assistance Percentage Escrow Fund		99,120
	From the Massachusetts Tourism Fund		14,900
	Total transfers to the Stabilization Fund		**663,457**
Part 3:	Status of Consolidated Net Surplus after Stabilization Fund transfers - Undesignated Fund Balance / (deficit):		
	General Fund		$ 958,471
	Highway Fund		(716,533)
	Children's and Seniors' Health Care Assistance Fund		(161,665)
	Consolidated Net Surplus after the annual transfer		**$ 80,273**
Part 4:	Fiscal 2004 Stabilization Fund Activity:		
	Reserved for Stabilization - Balance as of June 30, 2003		$ 641,325
	Consolidated Net Surplus pursuant to part 2, above		663,457
	Plus: Recoveries of Central Artery Project Costs pursuant to Chapter 4, Section 83 of the Acts of 2003		695
	Plus: Interest income		5,259
	Subtotal		1,310,736
	Less: Transfers and Appropriations from the Stabilization Fund during FY 2004:		
	Chapter 140 of the Acts of 2003, Section 123	$ (99,815)	
	Chapter 141 of the Acts of 2003, Section 68	(33,633)	
	Chapter 141 of the Acts of 2003, Section 69	(16,000)	
	Chapter 352 of the Acts of 2004 Appropriations	(381,433)	
	Subtotal, Transfers and Appropriations from the Stabilization Fund	(530,881)	
	Add: Transfer of Temporary Holding Fund balance per General Laws Chapter 62F, Section 6A, the lesser of its balance or the subtotal above	357,465	
	Net Transfers and Appropriations from the Stabilization Fund during FY 2004		(173,416)
	Reserved for Stabilization - Balance as of June 30, 2004		**$ 1,137,320**

Calculation Of Transfers: Tax Reduction Fund

June 30, 2004
(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of Budgeted Revenues and Other Financial Resources:		
Undesignated Fund Balance in the Stabilization Fund	$	1,137,320
Allowable Stabilization Balance (per Schedule B)		3,697,771
Stabilization Fund Excess, if any, transferable to Tax Reduction Fund	$	-
Part 2: Status of Stabilization Fund after transfers:		
Stabilization Fund Balance	$	1,137,320
Transfer to Tax Reduction Fund		-
Stabilization Fund Balance after transfer to Tax Reduction Fund	$	1,137,320
Part 3: Status of Tax Reduction Fund after transfers:		
Tax Reduction Fund Balance	$	-
Transfers from Stabilization Fund		-
Tax Reduction Fund Balance after transfers	$	-

MASSACHUSETTS GENERAL INFORMATION

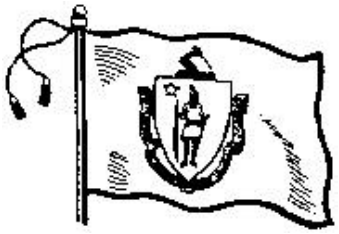
Admitted to Union (6th State): 1788
Population: 6,433,422

Capital: Boston
Nickname: Bay State

The State Seal

The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

The State Flag

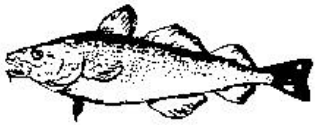


The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower

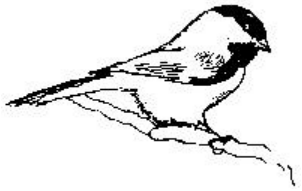
The Mayflower

The State Fish



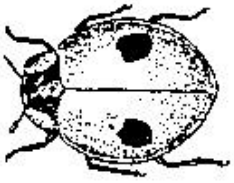
The Cod, a soft-finned fish, usually 10-20bs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

The State Bird



The Black Capped Chickadee

The State Insect



The Lady Bug

The State Tree

The American Elm was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

The State Dog

The Boston Terrier, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

Beverage: Cranberry Juice
Dessert: Boston Cream Pie

Muffin: The Corn Muffin
Cookie: Chocolate Chip

Horse: The Morgan Horse
Bean: Navy Bean